



U.S. ENVIRONMENTAL PROTECTION AGENCY

OFFICE OF INSPECTOR GENERAL

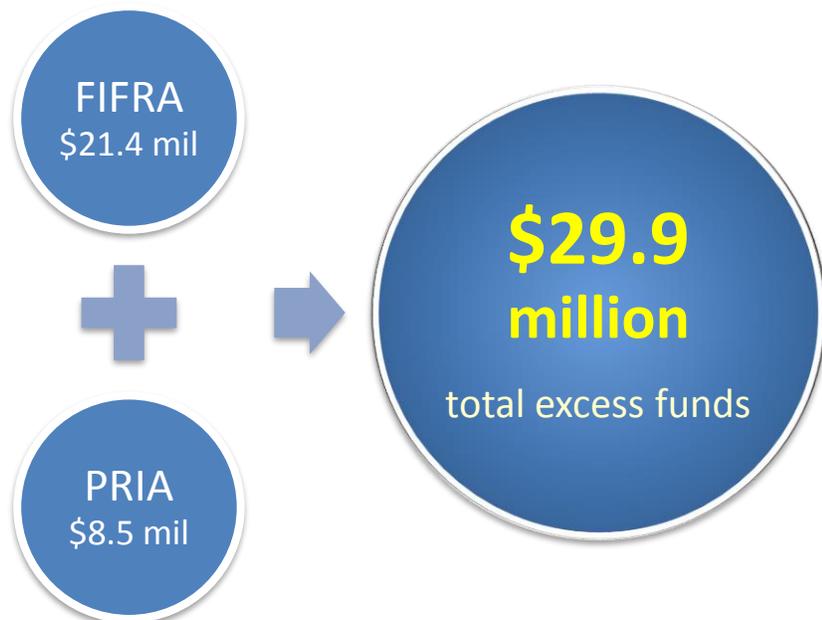


Operating efficiently and effectively

EPA Needs to Manage Pesticide Funds More Efficiently

Report No. 17-P-0395

September 18, 2017



Report Contributors:

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Abbreviations

EPA	U.S. Environmental Protection Agency
FIFRA	Federal Insecticide, Fungicide, and Rodenticide Act
FY	Fiscal Year
GAO	U.S. Government Accountability Office
JF	Journal File
OIG	Office of Inspector General
OPP	Office of Pesticide Programs
PRIA	Pesticide Registration Improvement Act

Cover image: Graphic illustrating FIFRA and PRIA excess funds as of September 30, 2016.
(EPA OIG image)

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At a Glance

Why We Did This Review

The U.S. Environmental Protection Agency (EPA), Office of Inspector General (OIG), performed this audit to determine whether the EPA manages the Pesticides Reregistration and Expedited Processing Fund (known as the FIFRA Fund) and the Pesticide Registration Fund (known as the PRIA Fund) effectively to minimize reliance on appropriated funds.

The EPA is responsible for reassessing the safety of older pesticide registrations against modern health and environmental testing standards. To expedite this reregistration process, Congress authorized the EPA to collect maintenance fees from pesticide manufacturers. The fees are deposited into the FIFRA Fund. In addition, to expedite the registration of certain pesticides, Congress authorized the EPA to assess and collect pesticide registration fees, which are deposited into the PRIA Fund.

This report addresses the following:

- *Operating efficiently and effectively.*

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Listing of [OIG reports](#).

EPA Needs to Manage Pesticide Funds More Efficiently

What We Found

The EPA should manage the FIFRA and PRIA Funds more effectively by reducing excess fund balances to within a target range. As of September 30, 2016, we identified excess funds of approximately \$21.4 million for FIFRA and \$8.5 million for PRIA, for a total of \$29.9 million. A reduction in fund balances would increase the availability of appropriated funds for other environmental purposes.

With improved funds management, the EPA may achieve maximum use of its FIFRA and PRIA Funds and will reduce the reliance on appropriated funds.

The EPA used more appropriated funds to cover operating expenses than was necessary and allowed the fund balances to trend up to levels higher than needed for current operations. According to the U.S. Government Accountability Office, it is important for entities with operating reserves to establish appropriate target amounts using a risk-based strategy to efficiently use resources. However, the EPA did not establish a target range for its FIFRA and PRIA Funds.

FIFRA and PRIA Fund balances did not agree with the corresponding liabilities from pesticide registrant fee payments because the EPA did not reconcile the accounts. The EPA records a liability for the fees collected until it completes the pesticide review. The U.S. Government Accountability Office includes reconciliations among its standard internal control activities for management to respond to internal control risks. Without performing periodic reconciliations, the EPA cannot confirm the accuracy of its FIFRA and PRIA recorded liabilities.

Recommendations and Planned Agency Corrective Actions

We recommend that the Assistant Administrator for Chemical Safety and Pollution Prevention establish a target range for its FIFRA and PRIA Fund balances and develop and implement a plan to reduce excess funds to within the target range. We also recommend that the Chief Financial Officer reconcile the FIFRA and PRIA Funds' balances to the corresponding liabilities.

The agency concurred with establishing a target range and developing a plan to reduce excess funds for FIFRA Fund balances. The agency did not agree with establishing a target range and developing a plan to reduce excess funds for PRIA Fund balances, citing the lack of predictability of PRIA collections. We still believe PRIA has excess funds that should be addressed. The agency agreed to reconcile FIFRA and PRIA balances.



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

THE INSPECTOR GENERAL

September 18, 2017

MEMORANDUM

SUBJECT: EPA Needs to Manage Pesticide Funds More Efficiently
Report No. 17-P-0395

FROM: Arthur A. Elkins Jr.

A handwritten signature in black ink, appearing to read "Arthur A. Elkins Jr.", is written over the printed name.

TO: Nancy Beck, Acting Assistant Administrator
Office of Chemical Safety and Pollution Prevention

David Bloom, Acting Chief Financial Officer
Office of the Chief Financial Officer

This is our report on the subject audit conducted by the Office of Inspector General (OIG) of the U.S. Environmental Protection Agency (EPA). The project number for this audit was OA-FY17-0125. This report contains findings that describe the problems the OIG has identified and corrective actions the OIG recommends. 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 management in accordance with established audit resolution procedures.

Action Required

The agency agreed with the portion of Recommendations 1 and 2 involving the Federal Insecticide, Fungicide, and Rodenticide Act Fund but did not agree with the portion involving the Pesticide Registration Improvement Act Fund. Therefore, we consider Recommendations 1 and 2 unresolved pending the agency's response to the final report. The agency agreed with Recommendation 3.

In accordance with EPA Manual 2750, the resolution process begins immediately with the issuance of this report. We are requesting a meeting within 30 days between the acting Assistant Administrator of the Office of Chemical Safety and Pollution Prevention and the OIG's Assistant Inspector General for Audit. If resolution is still not reached, the acting Assistant Administrator of the Office of Chemical Safety and Pollution Prevention is required to complete and submit the dispute resolution request to the Chief Financial Officer to continue resolution.

We will post this report to our website at www.epa.gov/oig.

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Chapter 1

Introduction

Purpose

The U.S. Environmental Protection Agency (EPA), Office of Inspector General (OIG), performed this audit to evaluate the EPA's funds management of the Pesticides Reregistration and Expedited Processing Fund (FIFRA Fund) and the Pesticide Registration Fund (PRIA Fund). The objective of our audit was to determine whether the EPA's Office of Chemical Safety and Pollution Prevention (OCSPP) and Office of the Chief Financial Officer (OCFO) managed the FIFRA and PRIA Funds effectively to minimize reliance on appropriated funds.

Background

The EPA's Office of Pesticide Programs (OPP), within the OCSPP, regulates the manufacture and use of all pesticides in the United States and establishes maximum levels for pesticide residues in food, thereby safeguarding the nation's food supply. OPP implements the Federal Insecticide, Fungicide, and Rodenticide Act (FIFRA) and the Pesticide Registration Improvement Act (PRIA).

FIFRA and PRIA authorize the EPA to fund registration-related activities by collecting fees from pesticide registrants (i.e., manufacturers and formulators) to supplement appropriations. This funding authority allows the EPA to collect fees and obligate funds outside the annual appropriations process.

Statutory Authority

The FIFRA Fund was authorized in 1988 by amendments to FIFRA. The 1988 amendments mandated the accelerated reregistration of all products registered under FIFRA prior to November 1, 1984. Congress authorized the collection of maintenance fees to supplement appropriations to fund reregistration, 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 Fund). The FIFRA Fund may charge some administrative costs directly to the fund and charge the remainder of the administrative costs to agencywide appropriations.

The PRIA Fund is authorized under the Pesticide Registration Improvement Act of 2003 (which amended FIFRA), and became effective on March 23, 2004. PRIA authorized the 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 OPP's Registration

Division 2003 Work Plan. The Pesticide Registration Improvement Renewal Act (commonly referred to as PRIA 2), which became effective October 1, 2007, extended the authority to collect pesticide registration service fees through fiscal year (FY) 2012. PRIA 2 was then reauthorized with the passage of the Pesticide Registration Improvement Extension Act (referred to as PRIA 3) on September 28, 2012, and became effective a few days later on October 1, 2012. The PRIA Fund may charge some administrative costs directly to the fund and charge the remainder of the administrative costs to agencywide appropriations.

Responsible Offices

The offices with primary responsibility for the audit issues discussed are OPP within the OCSPP, and the Office of Budget and Office of the Controller within the OCFO.

Scope and Methodology

We conducted this audit from February to July 2017, in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Appendix A contains additional details concerning our scope and methodology, including details on prior reports reviewed.

Chapter 2

EPA Should Manage FIFRA and PRIA Funds More Effectively

The FIFRA and PRIA Fund balances were higher than the EPA needed to cover current operating expenses. Drawing on U.S. Government Accountability Office (GAO) information about managing fund balances, we identified excess balances of approximately \$21.4 million for the FIFRA Fund and \$8.5 million for the PRIA Fund as of September 30, 2016, for a total of \$29.9 million. The EPA focused on using the appropriated funds and did not establish a target range for its FIFRA and PRIA Fund balances. Also, the EPA did not reconcile the fund balances to the liabilities. Without effective funds management, the EPA did not maximize use of the funds nor minimize reliance on appropriated funds. Improving the EPA's use of FIFRA and PRIA Fund balances would increase the availability of appropriated funds for other environmental purposes.

EPA Needs a Strategy to Manage Fund Balances

The GAO report GAO-17-59, *Permanent Funding Authorities: Some Selected Entities Should Review Financial Management, Oversight, and Transparency Policies*, December 2016, states:

When unobligated balances are used as operating reserves, it is important for entities to establish appropriate target ranges, using a risk-based strategy, to help ensure resources are used efficiently and responsibly.¹

The GAO report further states:

Operating reserve targets should be set to maintain an adequate amount in case of operational needs and probable contingencies, yet not reserve an excessive amount that should be available for other purposes.

We believe a portion of the FIFRA and PRIA Fund balances represent excess operating reserves. We analyzed the FIFRA and PRIA Fund balances to determine whether the year-end balances were excessive and should be reduced to make more appropriated funds available for other purposes. We used an annual cash flow analysis approach; details on that analysis follow.

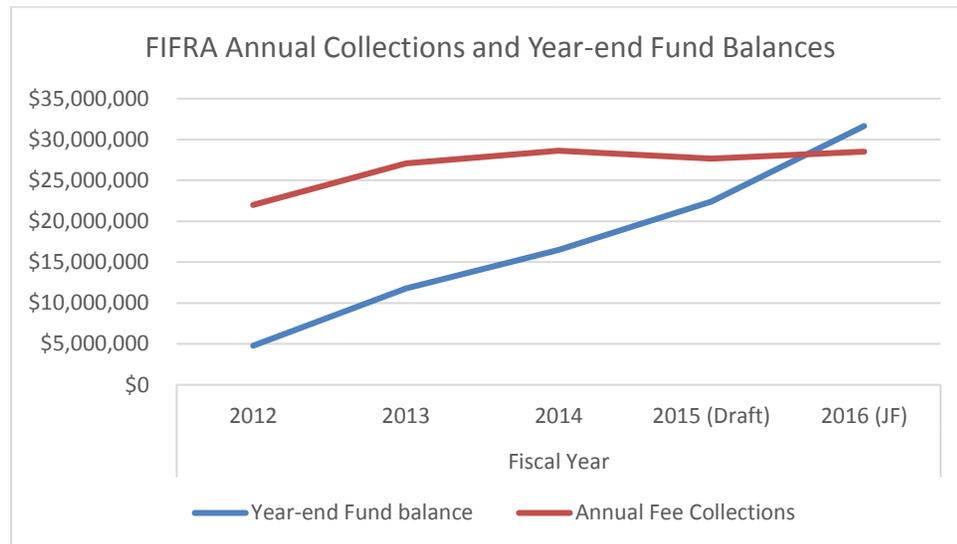
¹ Unobligated balances refer to the portion of the fund that has not yet been obligated. Operating reserves are excess fund balances carried over to a subsequent period for authorized expenses.

Cash Flow Analysis

We analyzed annual collections and year-end balances for the FIFRA and PRIA Funds for FYs 2012 through 2016. The FIFRA maintenance fee collections aggregate amount to be collected under FIFRA § 4(i)(1)(C) is \$27.8 million for each of FYs 2013 through 2017. The PRIA fee collections, which are based on a statutory schedule of covered applications and registration service fees, rose slightly over the years we examined. The year-end balances for both funds have been trending higher. Both the FIFRA and PRIA Fund balances at September 30, 2016, exceeded their FY 2016 annual collections. We believe this indicates that the operating reserves may be higher than needed for current operations.

Figure 1 compares the FIFRA Fund's annual collections for FYs 2012 through 2016 to the year-end fund balances. The FIFRA Fund's balance increased every year while the annual collections were approximately the same since FY 2013.

Figure 1: FIFRA annual fee collections and year-end fund balances²



Source: OIG analysis of EPA data.

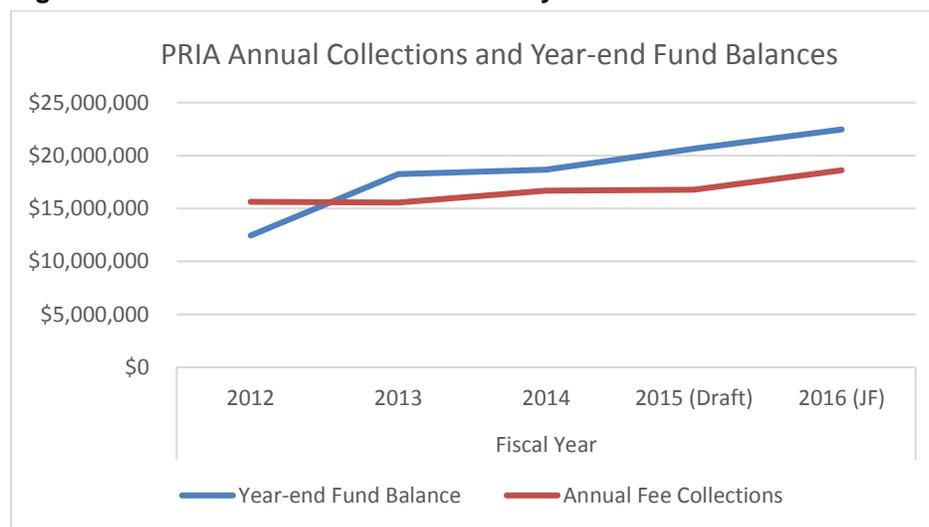
When evaluating FIFRA Fund operating reserve needs, we noted that pesticide registrants must pay their annual maintenance fees by January 15—the fourth month of the fiscal year. Our cash flow analysis indicated that the EPA collected almost all of the FY 2016 FIFRA maintenance fees by the end of January 2016. Therefore, we estimate that the FIFRA Fund needs a year-end operating reserve to cover expenses paid by the fund for the 4 months from the fiscal year-end through January, at which time the fund will have collected sufficient cash to cover expenses paid by the fund for the remainder of the fiscal year. Since FIFRA maintenance fee collections are statutorily limited to \$27.8 million per year, we

² We obtained the FIFRA and PRIA FYs 2012 to 2015 fund balance amounts from the FIFRA and PRIA financial statement audits. We obtained the FY 2016 FIFRA and PRIA Fund balance amounts from the file of agency transactions known as the journal file (JF) because the draft report was not available.

calculated that a FIFRA Fund operating reserve to cover 4 months of fund expense payments would be approximately \$9.3 million. The FIFRA Fund should maintain an additional balance sufficient to cover FY 2016 year-end fund obligations of \$1 million. Therefore, the total estimated FIFRA Fund balance needed would be \$10.3 million. The FIFRA Fund balance as of September 30, 2016, was \$31.7 million, or \$21.4 million more than needed.

Figure 2 compares the PRIA Fund’s annual collections for FYs 2012 through 2016 to the year-end PRIA Fund balances. The PRIA Fund’s balance increased significantly after FY 2014.

Figure 2: PRIA annual fee collections and year-end fund balances



Source: OIG analysis of EPA data.

Our cash flow analysis for the PRIA Fund in FY 2016 indicated that the EPA collected fees every month of the year as it received new pesticide registration applications. If the PRIA Fund maintained a year-end operating reserve to cover expenses paid by the fund for 4 months, it should have sufficient funds available throughout the fiscal year. As the FY 2016 PRIA fee collections were \$19.2 million, we calculated that a fund year-end operating reserve sufficient to cover 4 months of fund expense payments would be approximately \$6.4 million. The PRIA Fund should maintain an additional balance sufficient to cover FY 2016 year-end fund obligations of \$7.5 million. Therefore, the total estimated PRIA Fund balance needed would be \$13.9 million. The PRIA Fund balance as of September 30, 2016, was \$22.4 million, or \$8.5 million more than needed.

EPA Needs to Establish a Target Range for Fund Balances

According to the GAO, management should use a risk-based strategy to set operating reserve targets to maintain an adequate amount in case of operational needs and probable contingencies, yet not reserve an excessive amount that should be available for other purposes. The FIFRA and PRIA Fund balances

trended higher because the EPA focused on using appropriated funds and did not use a risk-based strategy nor establish a target range for its year-end operating reserves. We identified the following FIFRA and PRIA Fund risks:

- The EPA had a material internal control weakness in the FIFRA and PRIA Fund payroll costs.³ Significant payroll amounts paid from appropriations were not charged directly to the FIFRA and PRIA Funds or other pesticide programs. This resulted in the loss of the audit trail for reporting separate costs and liabilities for the FIFRA and PRIA Funds and other pesticide programs. Additionally, it reduced the EPA's ability to track FIFRA and PRIA Fund costs paid from fees and other appropriations.
- The EPA explained that the FIFRA Fund may accumulate large fund reserves that it cannot use due to the requirements of FIFRA. Under FIFRA, monies derived from fees may not be expended in any fiscal year to the extent that such monies would exceed money appropriated for use by the Administrator.
- The EPA may experience funding delays or potential fluctuations in fee collections.

Regarding the material internal control weakness in FIFRA and PRIA Fund payroll costs, the agency plans to implement a new payroll cost allocation enhancement by October 2017 that will create an audit trail to capture costs incurred by the FIFRA and PRIA Funds and other appropriations that support FIFRA and PRIA-related activities.

EPA should manage both fund balances more efficiently by considering fund risks, establishing fund balance targets, and developing a plan to reduce excess fund balances to within the target range. Without effective funds management, the EPA may not be maximizing the use of its FIFRA and PRIA Funds nor minimizing reliance on appropriated funds.

EPA Did Not Reconcile Fund Balances to Liabilities

The EPA receives fee payments from pesticide registrants to complete pesticide reviews. The EPA records a liability for the fees collected until it completes the pesticide reviews. As the EPA spends the funds collected from fees to complete the pesticide review, it reduces the recorded liability. Therefore, the fund balances⁴ should equal the balances of the related liability. The FIFRA and PRIA Fund balances did not agree with the corresponding liabilities. Tables 1 and 2 compare the year-end FIFRA and PRIA Fund balances to the year-end liabilities to determine the differences for FYs 2012 through 2016. The differences—

³ The OIG's audit reports for the FY 2014 FIFRA and PRIA financial statements each disclaimed an opinion due to a material internal control weakness that the EPA could not support the FIFRA and PRIA Fund payroll costs.

⁴ Fund balance involves only fixed FIFRA and PRIA collections and not appropriations.

especially for the FIFRA Fund—suggest that the recorded liabilities may not be accurate. For the FIFRA Fund, the liabilities exceeded fund balances in every year reviewed.

Table 1: FIFRA year-end fund balances and liabilities

FIFRA	Fiscal year				
	2012	2013	2014	2015 (Draft)	2016 (JF)
Fund balance	\$4,778,000	\$11,791,000	\$16,480,000	\$22,400,000	\$31,653,813
Liabilities	9,494,000	14,787,000	20,109,000	26,382,000	38,504,918
Difference	(\$4,716,000)	(\$2,996,000)	(\$3,629,000)	(\$3,982,000)	(\$6,851,105)

Source: OIG analysis of EPA data.

For the PRIA Fund, the fund balance exceeded the liabilities in every year reviewed, which was the opposite of the FIFRA Fund’s result. In addition, the PRIA Fund differences were not as large as the FIFRA Fund differences.

Table 2: PRIA year-end fund balances and liabilities

PRIA	Fiscal year				
	2012	2013	2014	2015 (Draft)	2016 (JF)
Fund balance	\$12,443,000	\$18,243,000	\$18,667,000	\$20,658,000	\$22,471,196
Liabilities	11,277,000	17,461,000	17,307,000	19,104,000	21,779,000
Difference	\$1,166,000	\$782,000	\$1,360,000	\$1,554,000	\$692,196

Source: OIG analysis of EPA data.

The year-end FIFRA and PRIA Funds and liabilities did not agree because the EPA did not reconcile the accounts to identify any differences, determine the reasons, and make any necessary corrections. Some differences may occur for a legitimate reason, such as accounting entries for accrued expenses that are reversed in the following accounting period. Other differences may indicate an accounting error that should be corrected. The GAO’s *Standards for Internal Control in the Federal Government* include reconciliations among its standard internal control activities for management to respond to internal control risks. Without performing periodic reconciliations, the EPA cannot confirm the accuracy of its FIFRA and PRIA recorded liabilities.

Conclusion

The EPA should manage the FIFRA and PRIA Funds more effectively by reducing excess fund balances to within a target range and reconciling the fund balances to the advances from registrants. Management should develop a risk-based cash management strategy, establish targets for year-end fund balances, develop a plan to reduce excess fund balances to within the target range, and reconcile the funds’ balances and advance accounts. These actions would maximize the use of the FIFRA and PRIA Funds and minimize reliance on appropriated funds to efficiently use resources. We identified excess FIFRA and PRIA Fund balances of

\$29.9 million that the EPA could use; this would allow \$29.9 million in appropriated funds to be made available for other environmental purposes.

Recent Agency Actions Prompted by OIG Work

OPP said it met with the OCFO on February 16, 2017, to discuss approaches on spending down the current FIFRA fee balance. OPP was tasked with developing a strategic draft plan—currently under development—on how to spend down the FIFRA Fund. The OCFO stated that, by working together with OPP, they are establishing a more comprehensive plan to address FIFRA and PRIA Fund balances.

Recommendations

We recommend that the Assistant Administrator for Chemical Safety and Pollution Prevention:

1. Establish a target range for its Pesticides Reregistration and Expedited Processing Fund and Pesticide Registration Fund year-end balances.
2. Develop and implement a plan to reduce excess Pesticides Reregistration and Expedited Processing Fund and Pesticide Registration Fund balances within the established target range.

We recommend that the Chief Financial Officer:

3. Perform periodic reconciliations of the Pesticides Reregistration and Expedited Processing Fund and Pesticide Registration Fund balances to the corresponding liabilities.

Agency Comments and OIG Evaluation

OCSPP partially concurred with Recommendations 1 and 2. For FIFRA relating to Recommendations 1 and 2, OCSPP stated:

OCSPP agrees with both recommendations as they apply to the Pesticide Reregistration and Expedited Processing Fund. OCSPP has already begun development of a four-year spend down plan, which sets end-of-year balance targets and offers specific details as to how the OCSPP will manage the carryover balance down to an appropriate level by 2020. OCSPP will complete this plan by December 31, 2017.

OCSPP provided a milestone completion date of December 31, 2017. The OIG concurs with the agency's proposed actions, and, when implemented, the

corrective actions will satisfy the intent of Recommendations 1 and 2 relating to FIFRA.

For PRIA relating to Recommendations 1 and 2, OCSPP stated:

OCSPP does not agree with the recommendations they apply to the Pesticide Registration Fund. The PRIA registration fees, which support the Pesticide Registration Fund, were set intentionally at levels that represent only a portion of the cost necessary for the agency to complete its review, and are meant to provide additional resources to the agency to achieve faster and more predictable registration decision time frames. Unlike the FIFRA Fund, which is relatively static within the fiscal year as far as dates for billing and collecting of fees, there is greater variability within a fiscal year and between fiscal years regarding funds collected into and spent from PRIA Fund. The agency does not have control over the number and types of applications submitted by the regulated community and, therefore, cannot accurately predict PRIA fee amounts that will be received in any given fiscal year.

We believe that since the PRIA Fund has shown consistent increases in fund balances and maintained a large excess reserve amount (estimated at \$8.5 million), our recommendations should apply to PRIA as well.

The agency believed the carryover balance of \$22.4 million is inaccurate and does not include funds obligated but not paid out. Our report specifically detailed our calculations of a fund balance of \$22.4 million, less an estimated 4-month operating reserve of \$6.4 million and outstanding obligations of \$7.5 million, for a net of excess funds needed of \$8.5 million. During our analysis, we identified a difference of \$832,668 of PRIA unpaid obligations on March 27, 2017. We received a response from OCFO stating that the \$832,668 should be included as part of our analysis. We took into account these amounts when we calculated the \$8.5 million of excess PRIA funds.

Table 3: PRIA cash flow

Description	Amount
Fund Balance With Treasury (as of 09/30/16 - PRIA Financial Statements [Balance Sheet])	\$22,471,196.15
Less: Amount Obligated (FY16; Quarter 4; per SF-133 - Unpaid Obligations)	\$7,540,530.59
Unobligated Balance (\$14,097,997.99 + \$832,668)	\$14,930,665.56
Amount of cash needed at 09/30/16	\$6,404,111.89
Excess PRIA funds at 09/30/2016	\$8,526,553.67

Source: OIG analysis of EPA data.

OCFO concurred with Recommendation 3. The OCFO stated that the initial reconciliations have been completed and quarterly reconciliations will be done quarterly going forward. The OCFO considers this recommendation as being

addressed. The OIG concurs with the agency's corrective actions for Recommendation 3, and corrective actions have been completed.

OCFO's and OCSPP's complete response to the draft report is in Appendix B.

Status of Recommendations and Potential Monetary Benefits

RECOMMENDATIONS

Rec. No.	Page No.	Subject	Status ¹	Action Official	Planned Completion Date	Potential Monetary Benefits (in \$000s)
1	8	Establish a target range for its Pesticides Reregistration and Expedited Processing Fund and Pesticide Registration Fund year-end balances.	U	Assistant Administrator for Chemical Safety and Pollution Prevention		
2	8	Develop and implement a plan to reduce excess Pesticides Reregistration and Expedited Processing Fund and Pesticide Registration Fund balances within the established target range.	U	Assistant Administrator for Chemical Safety and Pollution Prevention		\$29,900
3	8	Perform periodic reconciliations of the Pesticides Reregistration and Expedited Processing Fund and Pesticide Registration Fund balances to the corresponding liabilities.	C	Chief Financial Officer	8/15/17	

¹ C = Corrective action completed.

R = Recommendation resolved with corrective action pending.

U = Recommendation unresolved with resolution efforts in progress.

Details on Scope and Methodology

To gain an understanding of the EPA's processes for the financial management of FIFRA and PRIA Funds, we:

- Reviewed applicable laws, regulations, policies, guidance and relevant prior audit reports.
- Reviewed the EPA's procedures for managing the funds.
- Interviewed personnel involved with managing the funds in the OCSPP and OCFO.
- Reviewed the EPA's FY 2016 management integrity assurance letters from the OCSPP and OCFO for reported internal control weaknesses related to FIFRA and PRIA Funds.

We tested the effectiveness of the EPA's fund management processes by analyzing FIFRA and PRIA financial data for FYs 2012 through 2016, including the fund balances, annual collections, and advances from non-federal entities (a liability). We obtained the FIFRA and PRIA unobligated fund balances as of September 30, 2016, from EPA budget reports filed with the U.S. Department of the Treasury and verified them with Compass Financials, the EPA's accounting system.

We accessed information from the EPA's FIFRA and PRIA financial statements for FYs 2012 through 2016.⁵ We accessed collection and obligation information in Compass Financials. This data materially affected our findings, conclusions and recommendations. We did not review the internal controls over Compass Financials from which we obtained financial data, but relied on the reviews conducted during the audits of the EPA's consolidated financial statements.

Prior Reports Reviewed

We researched prior EPA OIG and GAO reports related to the FIFRA and PRIA Funds. We identified and reviewed six EPA OIG and five GAO reports with information directly related to our review, listed in Table A-1. The six EPA OIG reports—of the FIFRA and PRIA financial statement audits for FYs 2012 through 2014—provided useful data on fund balances, advances from pesticide registrants, and costs paid from FIFRA and PRIA Funds and other appropriations. The FY 2014 FIFRA and PRIA audit reports each disclaimed an opinion on the financial statements due to a material weakness in that the EPA could not support the funds' payroll costs. The agency agreed with each OIG report's findings and recommendations and completed corrective actions for all 15 recommendations, except for implementing a new payroll cost allocation enhancement, which the agency plans to complete by October 2017. The five GAO reports provided useful information on designing and implementing regulatory fees and managing revenue instability with cash reserves.

⁵ We obtained FIFRA and PRIA financial information from audited financial statements for FYs 2012 through 2014 and from draft financial statement information for FYs 2015 and 2016.

Table A-1: Prior reports reviewed

Report title	Report no.	Date
Fiscal Years 2014 and 2013 Financial Statements for the Pesticide Registration Fund	EPA OIG 16-F-0323	September 22, 2016
Fiscal Years 2014 and 2013 Financial Statements for the Pesticides Reregistration and Expedited Processing Fund	EPA OIG 16-F-0322	September 22, 2016
Fiscal Years 2013 and 2012 Financial Statements for the Pesticide Registration Fund	EPA OIG 15-1-0181	July 10, 2015
Fiscal Years 2013 and 2012 Financial Statements for the Pesticides Reregistration and Expedited Processing Fund	EPA OIG 15-1-0180	July 10, 2015
Fiscal Years 2012 and 2011 (Restated) Financial Statements for the Pesticide Registration Fund	EPA OIG 14-1-0042	December 17, 2013
Fiscal Years 2012 and 2011 (Restated) Financial Statements for the Pesticides Reregistration and Expedited Processing Fund	EPA OIG 14-1-0041	December 17, 2013
Permanent Funding Authorities: Some Selected Entities Should Review Financial Management, Oversight, and Transparency Policies	GAO-17-59	December 9, 2016
Federal Fees, Fines, and Penalties: Observations on Agency Spending Authorities	GAO-17-268T	December 1, 2016
Federal User Fees: Key Considerations for Designing and Implementing Regulatory Fees	GAO-15-718	September 16, 2015
Federal User Fees: Fee Design Options and Implications for Managing Revenue Instability	GAO-13-820	September 30, 2013
Federal User Fees: A Design Guide	GAO-08-386SP	May 29, 2008

Source: OIG analysis.

Agency Response to Draft Report



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

August 15, 2017

MEMORANDUM

SUBJECT: Response to the Office of Inspector General Draft Report for Project No. OA-FY17-0125 entitled, "EPA Needs to Manage Pesticide Funds More Effectively," Dated July 13, 2017.

FROM:


David S. Bloom, Acting Chief Financial Officer
Office of the Chief Financial Officer

Wendy Cleland-Hamnett, Acting Assistant Administrator
Office of Chemical Safety and Pollution Prevention

TO: Kevin Christensen, Assistant Inspector General
Office of Inspector General

Thank you for the opportunity to review and provide comments on the Office of Inspector General's Draft Report for Project No. OA-FY17-0125 dated July 13, 2017, which reflects findings of an audit conducted from February to April 2017. The Agency's response to each recommendation, including our proposed corrective actions and anticipated dates of completion for such actions, are detailed below.

Recommendation 1. We recommend that the Assistant Administrator for the Office of Chemical Safety and Pollution Prevention establish a target range for the Pesticides Reregistration and Expedited Processing Fund and Pesticide Registration Fund year-end balances.

Recommendation 2. We recommend that the Assistant Administrator for the Office of Chemical Safety and Pollution Prevention develop and implement a plan to reduce excess Pesticides Reregistration and Expedited Processing Fund and Pesticide Registration Fund balances within the established target range.

- OCSPP Response:

FIFRA Fund:

The Office of Chemical Safety and Pollution Prevention agrees with both recommendations as they apply to the Pesticides Reregistration and Expedited Processing Fund. As mentioned in the report, the OCSPP has already begun the development of a four-year spend down plan, which sets end-of-year balance targets and offers specific details as to how the OCSPP will manage the carryover balance down to an appropriate level by FY 2020. OCSPP will complete this plan by December 31, 2017.

PRIA Fund:

The OCSPP does not agree with the recommendations they apply to the Pesticide Registration Fund. The PRIA registration fees, which support the Pesticide Registration Fund, were set intentionally at levels that represent only a portion of the cost necessary for the agency to complete its review, and are meant to provide additional resources to the agency to achieve faster and more predictable registration decision time frames. Unlike the FIFRA Fund, which is relatively static within the fiscal year as far as dates for billing and collecting of fees, there is greater variability within a fiscal year and between fiscal years regarding funds collected into and spent from PRIA Fund. The agency does not have control over the number and types of applications submitted by the regulated community and, therefore, cannot accurately predict PRIA fee amounts that will be received in any given fiscal year.

By way of correction, the OCSPP would like to inform the OIG that the carryover balance of \$22.4 million for the PRIA fund (reported on page 5 of the Draft Report) is inaccurate. The balance in the Draft Report included funds obligated but not paid out, which should not be part of the carryover balance calculation. The agency's official financial management system, Compass, shows a carryover balance of \$14,097,998; this figure represents the final balance on September 30, 2016, which was carried forward into FY 2017 on October 1, 2016.

Recommendation 3. We recommend that the Chief Financial Officer perform periodic reconciliations of the Pesticides Reregistration and Expedited Processing Fund and Pesticide Registration Fund balances to the corresponding liabilities.

- OCFO Response

While the Office of the Chief Financial Officer concurs with the recommendation, we performed a sample reconciliation of the FIFRA Fund from FYs 2012-2016. Our findings indicate that:

1. The reconciliation provided by the OIG did not include all the liability accounts, such as Standard General Ledger Accounts 21 10, 2120, 2140;
2. Most of the difference is from FY 2012, where the offset of cash is in SGL 3310;
3. The other differences are mostly timing differences or reversing cash adjusting entries which only impacted cash not the liabilities; and

4. Interest collections only impact cash but not liabilities.

The OCFO will review the activity of cash and liabilities in the FIFRA and PRIA accounts for the current fiscal year and will make any corrections, if needed. Initial reconciliations have been completed and quarterly reconciliations will be done going forward. The OCFO considers this recommendation as being addressed.

Thank you once again for your review of the FIFRA and PRIA funds. We appreciate the hard work and dedication of the OIG staff in achieving excellent funds management and control, which ultimately supports our mission to protect human health and the environment through registration and review of pesticides.

If you have any questions regarding this response, please contact OCFO's Bob Trent, Management Integrity and Accountability Branch, Office of the Controller, at (202) 566-0983 or Janet Weiner, Attorney/Advisor, Office of Chemical Safety and Pollution Prevention, at (202) 564-2309.

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