



U.S. ENVIRONMENTAL PROTECTION AGENCY

OFFICE OF INSPECTOR GENERAL

*Operating efficiently and effectively*

## **Fiscal Years 2017 and 2016 (Restated) Financial Statements for the Pesticide Registration Fund**

Report No. 19-F-0215

June 28, 2019



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## Abbreviations

EPA	U.S. Environmental Protection Agency
FMFIA	Federal Managers' Financial Integrity Act of 1982
FY	Fiscal Year
OIG	Office of Inspector General
OMB	Office of Management and Budget
PRIA	Pesticide Registration Improvement Act
PRISM	Pesticide Registration Information System

**Cover Photo:** Pesticides being applied. (EPA photo)

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# At a Glance

## Why We Did This Project

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

To expedite the registration of certain pesticides, Congress authorized the U.S. Environmental Protection Agency (EPA) to assess and collect pesticide registration fees. The fees collected are deposited into the PRIA Fund. The agency is required to prepare financial statements that present financial information about the fund.

PRIA also requires that decision-time review periods be established for pesticide registration actions and that the Office of Inspector General (OIG) perform an analysis of the agency's compliance with those review periods.

### This report addresses the following:

- *Operating efficiently and effectively.*

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## ***Fiscal Years 2017 and 2016 (Restated) Financial Statements for the Pesticide Registration Fund***

### **EPA Receives a Modified Opinion**

We rendered a modified opinion on the PRIA Fund financial statements for fiscal year (FY) 2017, meaning that except for the possible effects of the agency's inability to support PRIA's payroll accruals and related expenses in FY 2016, the FY 2017 financial statements were fairly presented.

**We rendered a modified opinion on the EPA's FY 2017 PRIA Fund financial statements and a disclaimer of opinion on the FY 2016 (restated) PRIA Fund financial statements.**

We rendered a disclaimer of opinion on the PRIA Fund financial statements for FY 2016, meaning we could not obtain sufficient, appropriate audit evidence to provide a basis for an audit opinion. This disclaimer of opinion was rendered because the agency could not support PRIA's payroll accruals and related expenses in FY 2016.

### **Internal Control Material Weakness – Property**

In FY 2017, the EPA corrected accounting errors in—and subsequently restated—its FY 2016 PRIA Fund financial statements. When we examined the transactions used to justify the restatement amounts, we found that the EPA did not retain supporting documentation for \$369,779.88 of the transactions. Federal internal control standards require that all transactions be properly documented. These standards also require that this documentation be retained for an appropriate time period and be readily available for examination. Failure to retain supporting documentation for PRIA transactions for an appropriate time period casts doubt on management assertions regarding the recognition, measurement, presentation and disclosure of PRIA property accounts; depreciation; operating expenses; and the PRIA Fund's financial statements as a whole.

### **Compliance with Applicable Laws and Regulations**

We did not identify any noncompliances that would result in a material misstatement to the audited financial statements. In addition, the agency was in substantial compliance with the statutory decision time frames.

### **Recommendation and Agency Corrective Action**

We recommended that the Chief Financial Officer analyze agency records management schedules for financial management and determine how long records should be maintained after the disposal of software and financial records related to software assets. The agency agreed with our recommendation and completed the corrective action.



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

OFFICE OF  
INSPECTOR GENERAL

June 28, 2019

**MEMORANDUM**

**SUBJECT:** Fiscal Years 2017 and 2016 (Restated) Financial Statements for the  
Pesticide Registration Fund  
Report No. 19-F-0215

**FROM:** Paul C. Curtis, Director  
Financial Directorate  
Office of Audit and Evaluation

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

**TO:** Alexandra Dapolito Dunn, Assistant Administrator  
Office of Chemical Safety and Pollution Prevention

Holly Greaves, 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-FY18-0087. This report contains a finding that describes the problem the OIG identified and the corrective action the OIG recommended. This report represents the opinion of the OIG and does not necessarily represent the final EPA position. Final determination on matters in this report will be made by EPA managers in accordance with established audit resolution procedures.

The office responsible for the recommendation presented in this report is the Office of the Chief Financial Officer.

In accordance with EPA Manual 2750, the Office of the Chief Financial Officer completed acceptable corrective actions in response to the OIG recommendation. The recommendation is resolved, and no final response to this report is required. However, if you submit a response, it will be posted on the OIG's website, along with our memorandum commenting on your response. Your response should be provided as an Adobe PDF file that complies with the accessibility requirements of Section 508 of the Rehabilitation Act of 1973, as amended. The final response should not contain data that you do not want to be released to the public; if your response contains such data, you should identify the data for redaction or removal along with corresponding justification.

We will post this report to our website at [www.epa.gov/oig](http://www.epa.gov/oig).

# Table of Contents

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## Inspector General’s Report on the Fiscal Years 2017 and 2016 (Restated) Financial Statements for the Pesticide Registration Fund

Report on the Financial Statements .....	1
Report on Internal Control over Financial Reporting .....	3
Tests of Compliance with Laws, Regulations, Contracts and Grant Agreements .....	5
Management’s Discussion and Analysis Section of the Financial Statements.....	5
Prior Audit Coverage .....	6
Agency Comments and OIG Evaluation .....	6

## Attachments

1	Material Weakness .....	7
	EPA Did Not Retain Supporting Documentation for Capitalized Software Transactions.....	8
2	Status of Recommendations and Potential Monetary Benefits.....	10

## Appendices

A	Fiscal Years 2017 and 2016 (with Restatements) Pesticide Registration Fund Financial Statements
B	Agency Response to Draft Report
C	Distribution

# Inspector General's Report on the Fiscal Years 2017 and 2016 (Restated) Financial Statements for the Pesticide Registration Fund

The Administrator  
U.S. Environmental Protection Agency

## Report on the Financial Statements

We have audited the accompanying financial statements of the Pesticide Registration Fund, also known as the Pesticide Registration Improvement Act (PRIA) Fund. These statements comprise the balance sheets as of September 30, 2017, and September 30, 2016 (restated); related statements of net cost and changes in net position; statement of budgetary resources for the years then ended; and related notes to the financial statements.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America. This includes the design, implementation and maintenance of internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on conducting the audit in accordance with generally accepted government 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 19-01, *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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness

of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Basis for Disclaimer of Opinion in 2016***

The U.S. Environmental Protection Agency (EPA) could not adequately support payroll liabilities on the PRIA Fund's balance sheet as of September 30, 2016, as well as income/expense from other appropriations on the statements of the PRIA Fund's net cost and changes in net position for the year ended September 30, 2016.

In fiscal year (FY) 2016, the EPA allocated its pesticides appropriated funding to pay for payroll costs. By paying significant payroll amounts from appropriations versus fees collected by the PRIA Fund, the EPA lost the audit trail to properly support how much of the PRIA payroll expenses were paid for by appropriations. We were unable to satisfy ourselves by other audit procedures concerning the adequacy of the amounts allocated, consistency of application, or reasonableness of the payroll expenses between the PRIA Fund and the EPA's other pesticide programs, including payroll accruals, as of and for the year ended September 30, 2016. As a result, we were unable to determine whether any adjustments were necessary relating to payroll and related accounts, income/expense from other appropriations, and payroll liabilities.

### ***Disclaimer of Opinion in 2016***

Because of the significance of the matter described in the "Basis for Disclaimer of Opinion in 2016" section above, we have not been able to obtain sufficient, appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on the PRIA Fund's financial statements and the related accompanying notes as of and for the year ended September 30, 2016.

### ***Basis for Qualified Opinion in 2017***

The EPA could not support payroll accruals for the PRIA Fund, as of and for the year ended September 30, 2016. The EPA's inability to support the PRIA Fund's payroll accruals and related expenses in FY 2016 had a direct impact on the agency's ability to determine the proper balance of PRIA payroll expenses for FY 2017. As a result, we were unable to obtain sufficient, appropriate audit evidence about the proper amount of PRIA payroll expenses incurred for the year ended September 30, 2017, and we were unable to determine whether any adjustments to these amounts were necessary.



## ***Qualified Opinion in 2017***

In our opinion, except for the possible effects of the matter described in the “Basis for Qualified Opinion in 2017” paragraph, the PRIA Fund’s financial statements referred to above present fairly, in all material respects, the assets, liabilities, net position, net cost, changes in net position and budgetary resources, as of and for the year ended September 30, 2017, in accordance with accounting principles generally accepted in the United States of America.

## ***Emphasis of Matters***

**Restated Financial Statements.** In our FY 2017 audit of the agency’s consolidated financial statements (Report No. [18-F-0039](#), issued November 15, 2017), we identified a material weakness related to the EPA’s documentation of capitalized software transactions. As a result, as discussed in Note 11 of the PRIA Fund’s financial statements (Appendix A), the EPA revised its capitalized software procedures, leading the agency to correct the value of the software assets and account for all software projects. The EPA performed corrections to fix the value of the software assets, which the agency determined were understated. As a result of the agency’s corrections, the EPA restated the FY 2016 PRIA Fund’s financial statements.

Our report on the EPA’s FY 2016 PRIA Fund’s financial statements—Report No. [17-F-0365](#), dated August 14, 2017—contained a disclaimer of opinion as mentioned above. The EPA’s restatement of the PRIA Fund financial statements did not resolve the issues that resulted in the disclaimer; accordingly, our disclaimer of opinion on the FY 2016 financial statements has not changed.

## **Report on Internal Control over Financial Reporting**

**Opinion on Internal Control.** In planning and performing our audit, we considered the EPA’s internal controls over financial reporting by obtaining an understanding of the agency’s internal controls, determining whether internal controls had been placed in operation, assessing control risk and performing tests of controls. We did this as a basis of 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 or on management’s assertion on internal controls included in the “Management’s Discussion and Analysis” section of the financial statements. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin 19-01. We did not test all internal controls relevant to operating objectives, as broadly defined by the Federal Managers’ Financial Integrity Act of 1982 (FMFIA).



**Material Weakness and Significant Deficiencies.** Our consideration of the internal controls over financial reporting would not necessarily disclose all matters in this area that might be significant deficiencies. A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. A significant deficiency is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet it is important enough to merit attention by those charged with governance.

Because of inherent limitations in internal controls, misstatements, losses or noncompliance may occur and not be detected. In Attachment 1 and the "Prior Audit Coverage" section of this report below, we discuss a matter involving internal control and its operation, which we consider to be a material weakness.

## **Material Weakness**

### **PROPERTY**

#### ***EPA Did Not Retain Supporting Documentation for Capitalized Software Transactions***

We found that the EPA did not retain supporting documentation for \$369,779.88 of its Pesticide Registration Information System (PRISM) capitalized software transactions. Federal internal control standards require that all transactions be properly documented and that the documentation be readily available for examination and retained for an appropriate time period.

As a result of our material weakness finding that the EPA did not adequately document capitalized software transactions on its consolidated financial statements, the EPA conducted an analysis and recognized that it had improperly accounted for some prior-year PRISM software transactions. In FY 2017, the EPA corrected these accounting errors, resulting in the restatements of its FY 2016 PRIA Fund's financial statements.

When we examined the software transactions used to justify the restatement amounts, we found that some PRISM software transactions were missing supporting documentation. Failure to retain supporting documentation for PRIA capitalized software transactions for an appropriate time period casts doubt on management assertions regarding the recognition, measurement, presentation and disclosure of PRIA property accounts; depreciation; operating expenses; and the PRIA Fund's financial statements as a whole.

## ***Comparison of EPA's FMFIA Report with Our Evaluation of Internal Control***

OMB Bulletin No. 19-01 requires the OIG 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. The agency's FMFIA report is prepared and submitted at the consolidated level, of which the PRIA Fund is a component.

In the EPA's FY 2017 agency financial statement audit report, dated November 15, 2017, the agency continued to address a material weakness related to undercapitalized software. The agency had also addressed this weakness in its FYs 2014, 2015 and 2016 FMFIA assurance letters.

## **Tests of Compliance with Laws, Regulations, Contracts and Grant Agreements**

EPA management is responsible for complying with laws, regulations, contracts and grant agreements applicable to the agency. As part of obtaining a reasonable assurance as to whether the agency's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, including those governing the use of budgetary authority, regulations, contracts and grant agreements that have a direct effect on the determination of material amounts and disclosures in the PRIA Fund's financial statements. The objective of our audit, including our tests of compliance with applicable laws, regulations, contracts and grant agreements, was not to provide an opinion on compliance with such provisions. Accordingly, we do not express such an opinion. We did not identify any instances of noncompliance that would result in a material misstatement to the audited financial statements.

In addition, the agency was in substantial compliance with the statutory decision time frames.

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

For our audit work related to the pesticide program information presented in the "Management's Discussion and Analysis" section of the financial statements in Appendix A, we compared the overview with information in the EPA's principal financial statements for consistency. We did not identify any material inconsistencies between the information presented in the two documents.

## Prior Audit Coverage

During a previous audit of the PRIA Fund’s financial statements—*Fiscal Years 2015 and 2014 Financial Statements for the Pesticide Registration Fund* (Report No. [17-F-0315](#)), issued July 10, 2017—we reported a material weakness regarding inadequate support of costs. We reported the same issue in the next audit report about the PRIA Fund’s Financial Statements—*Fiscal Years 2016 and 2015 Financial Statements for the Pesticide Registration Fund* (Report No. [17-F-0365](#)), issued August 14, 2017. Specifically, the EPA’s Office of Pesticide Programs receives its funding from fees paid by pesticide manufacturers and amounts appropriated by Congress. In both FYs 2015 and 2016, the EPA allocated its pesticide funding to use appropriated amounts, which would expire, and retained funding received from fees. Therefore, significant payroll amounts paid from appropriations were not charged directly to the PRIA Fund or other pesticide programs. This approach resulted in the loss of the audit trail for reporting separate costs and liabilities for the PRIA Fund and other pesticide programs.

The agency agreed with our findings in the prior reports and has corrected this weakness. In October 2016, the agency improved its methodology for capturing new PRIA costs by establishing codes to distinguish the costs charged to the PRIA Fund versus the costs charged against other appropriations that support PRIA-related activities.

## Agency Comments and OIG Evaluation

The agency agreed with our recommendation and completed the corrective action.



Paul C. Curtis  
Certified Public Accountant  
Director, Financial Directorate  
Office of Audit and Evaluation  
Office of Inspector General  
U.S. Environmental Protection Agency  
June 25, 2019

# ***Material Weakness***

## **Table of Contents**

1 – EPA Did Not Retain Supporting Documentation for Capitalized Software Transactions .....	8
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## 1 – EPA Did Not Retain Supporting Documentation for Capitalized Software Transactions

We found that the EPA did not retain supporting documentation for \$369,779.88 of its PRISM capitalized software transactions. Federal internal control standards require that all transactions be properly documented and that the documentation be retained for an appropriate time period and readily available for examination. As a result of our material weakness finding that the EPA did not adequately document capitalized software transactions on its consolidated financial statements, which we reported in OIG Report No. [18-F-0039](#) (issued November 15, 2017), the agency conducted an analysis and recognized that it had improperly accounted for some prior-year PRISM software transactions. In FY 2017, the EPA corrected these accounting errors, resulting in the restatement of its FY 2016 PRIA Fund financial statements. When we examined the software transactions used to justify the restatement amounts, we found that some PRISM software transactions were missing supporting documentation. Failure to retain supporting documentation for PRIA capitalized software transactions for an appropriate time period casts doubt on management assertions regarding the recognition, measurement, presentation and disclosure of PRIA property accounts; depreciation; operating expenses; and the PRIA Fund’s financial statements as a whole.

As a result of our material weakness finding related to software transaction documentation on the EPA’s consolidated financial statements, the agency took steps to improve its internal accounting and controls over software costs. During FY 2017, the EPA determined that some PRISM software costs that should have been capitalized had been expensed and that accounting data for some capitalized PRISM software were incorrect. Correcting these errors resulted in a restatement of the FY 2016 PRIA Fund financial statements. As stated in Note 11, “Restatements,” of the restated financial statements, the changes impacted the EPA’s FY 2016 Balance Sheet and Statement of Changes to Net Position.

During the FY 2017 PRIA Fund financial statement audit, we examined some of the software transactions that were used to justify the restatements; however, the agency was unable to provide support for some of our sampled software transactions. The agency explained that the missing software records were unavailable due to the expiration of the capitalized software record-retention period. However, the records schedule that the agency used, *EPA Records Schedule 0329*, did not cover financial records related to property transactions.

The U.S. Government Accountability’s Office’s *Standards for Internal Control in the Federal Government* emphasizes the importance of appropriate documentation of transactions and internal control ([GAO-14-704G](#), Item No. 10.03, page 48):

Management clearly documents internal control and all transactions and other significant events in a manner that allows the documentation to be readily available for examination. The documentation may appear in management directives, administrative policies, or operating manuals, in either paper or electronic form. Documentation and records are properly managed and maintained.

In this PRIA report, we are re-reporting the material weakness that we previously reported on the EPA's consolidated financial statements due to the allocation of PRISM costs to PRIA in its restatement for FY 2016 and related lack of supporting documentation.

## **Recommendation**

We recommend that the Chief Financial Officer:

1. Analyze agency records management schedules for financial management and determine how long records should be maintained after the disposal of software and financial records related to software assets.

## **Agency Comments and OIG Evaluation**

The Office of the Chief Financial Officer agreed with our recommendation and completed the corrective action. Appendix B contains the agency's response to our draft report.

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

### RECOMMENDATIONS

Rec. No.	Page No.	Subject	Status <sup>1</sup>	Action Official	Planned Completion Date	Potential Monetary Benefits (in \$000s)
1	9	Analyze agency records management schedules for financial management and determine how long records should be maintained after the disposal of software and financial records related to software assets.	C	Chief Financial Officer	8/30/18	

<sup>1</sup> C = Corrective action completed.

R = Recommendation resolved with corrective action pending.

U = Recommendation unresolved with resolution efforts in progress.



**Fiscal Years 2017 and 2016 (with Restatements)  
Pesticide Registration Fund Financial Statements**



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

# TABLE OF CONTENTS

Management's Discussion and Analysis	2
Principal Financial Statements	7

# **Management's Discussion and Analysis**

Under the Federal Insecticide, Fungicide, and Rodenticide Act (FIFRA) and the Federal Food, Drug, and Cosmetic Act (FFDCA), as amended by the Food Quality Protection Act (FQPA) of 1996, the EPA's Pesticide Program registers new pesticides and re-evaluates existing pesticides to ensure that they can be used safely and that levels of residue in food and animal feed are safe (there is a reasonable certainty of no harm). The agency must also conclude that, when used in accordance with labeling and common practices, the product will not generally cause unreasonable adverse effects on the environment.

The Pesticide Registration Improvement Act (PRIA) of 2003 established the Pesticide Registration Fund. PRIA authorizes the collection of Registration service fees, which are deposited into the Registration Fund and made available for obligation to the extent provided in appropriation acts, and are available without fiscal year limitation.

### ***Pesticide Registration***

Under FIFRA and FFDCA pesticides must be registered by the EPA. The passage of PRIA introduced deadlines for the agency to complete certain registration actions. EPA expedites the registration of reduced-risk pesticide uses, which generally pose lower risks to people and the environment. Accelerated pesticide reviews provide an incentive for industry to develop and register lower risk pesticides, and the availability of these reduced-risk pesticides provides alternatives to older, potentially more harmful products currently on the market.

PRIA prescribed the amount of the registration service fee and the corresponding decision review time for various categories of registration action. The goal is to create a more predictable evaluation process for affected pesticide registrants and couple the collection of individual fees with specific decision-making periods. The legislation also promotes shorter decision review periods for reduced-risk pesticide applications. PRIA 1, effective on March 23, 2004, authorized collection of registration fees through FY 2008. The Pesticide Registration Improvement Renewal Act (PRIA 2), effective on October 1, 2007, authorized collection of registration fees through FY 2012. The Pesticide Registration Improvement Extension Act (PRIA 3) was effective on October 1, 2012, authorized collection of registration fees through FY 2017.

For a pending or a new application covered by PRIA to be deemed complete and subject to the decision review periods, a registrant is required to pay the applicable fee or receive a waiver from the fee. For most applications, the decision review period starts 21 days after submission of the application, provided that the fee has been paid, fee waiver granted or in the case of a 75% or 50% fee waiver under PRIA 3, the waiver has been granted and the remaining fee has been paid. PRIA 3 legislation provides fee waivers for certain categories of small businesses and minor

uses<sup>1</sup>. Exemption from the requirement to pay a registration service fee is continued under PRIA 3 for applications solely associated with IR-4 petitions<sup>2</sup>. Applications from federal and state agencies are also exempt from registration service fees. If the registrant requests a waiver or reduction of the fee, the decision review period will begin when the agency grants such request or in the case of small business fee waivers, no more than 60 days after receipt of the waiver application. If the agency determines that a fee is required and the waiver is not granted, the decision review period starts after the fee is collected.

Applications received prior to October 1, 2007, were covered by PRIA 1. Applications received between October 1, 2007 and September 30, 2012, were covered by PRIA 2<sup>3</sup> and applications received on or after October 1, 2012, are covered by PRIA 3. PRIA 3 contains the same audit provision as PRIA 2. PRIA 3 includes new authority to reject an application if it fails a preliminary technical screen. PRIA 3 also increases the fee categories or types of applications covered by PRIA from 140 to 189 and maintains set-asides to support worker protection and applicator training activities as well as IPM grants at levels comparable to PRIA 2.

### ***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 state and tribal pesticide programs emphasizes its commitment to maintaining a strong compliance and enforcement presence. Agency FIFRA Cooperative Agreement priorities for FY 2015 – FY 2017 include the enforcement of worker protection standards and pesticide applicator certification; compliance monitoring and enforcement activities related to the pesticide container and containment rules; the revised soil fumigant

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<sup>1</sup> Minor use pesticides are those that produce relatively little revenue for their manufacturers, for a variety of reasons. They may be registered for a seldom seen pest, or for a crop that is not grown by a large number of producers. However, minor crops include some high revenue fruit, vegetable, and ornamental crops.

<sup>2</sup> The IR-4 (Interregional Research Project No.4) program is involved in making sure that pesticides are registered for use on minor crops. IR-4 helps by conducting research on minor use pesticides, pesticides that would not otherwise be profitable to manufacture.

<sup>3</sup>Out of approximately 7,889 actions completed under PRIA 2, more than 99.0% were completed on or before the PRIA 2 due date.

labels; compliance of supplemental distributor products; 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 Agreements we support inspector training and training for state/tribal senior managers, scientists, and supervisors.

## ***Highlights and Accomplishments***

### ***Registration Financial Perspective***

During FY 2017, the Agency's obligations charged against the PRIA Fund for the cost of registration were \$20.6 million and 59.8 work-years. Of this amount, OPP obligated \$8.84 million in Personnel Compensation and Benefits (PC&B).

Appropriated funds are used in addition to Registration funds. In FY 2017, the Enacted Operating Plan included approximately \$10.0 million in appropriated funds for registration activities.

The Fund has two types of receipts: fee collections and interest earned on investments. Of the \$18.2 million in FY 2017 net receipts, more than 99.9% were fee collections.

### ***Registration Program Performance Measures***

The following measure supports the program's strategic goals Ensuring the Safety of Chemicals and Pollution Prevention.

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

*Results: In FY 2017, EPA registered 16 new active ingredients, including 9 biopesticides, 1 antimicrobials, and 6 conventional pesticides. This measure includes both reduced-risk and non-reduced-risk pesticides.*

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

*Results: In FY 2017, EPA registered 10 reduced-risk new active ingredients, all of which were biopesticides and one of which was a conventional pesticide. Biological pesticides are derived from such natural materials as animals, plants, bacteria, and certain minerals. They are usually less toxic and are typically considered safer pesticides than the traditional conventional chemicals; therefore, the 9 biopesticide new active ingredients are counted as reduced-risk pesticides. Conventional "reduced risk" pesticides have one or more of the following advantages over currently registered pesticides: low impact on human health, low toxicity to*

*non-target organisms, low potential for groundwater contamination, lower use rates, low pest resistance potential, and compatibility with integrated pest management strategies.*

**Measure 3: Number of New Food Uses Registered**

*Results: EPA registered 148 new food uses for previously registered active ingredients. Of these new uses, 139 food uses were for conventional pesticides, 1 was for an antimicrobial pesticide, and 8 were for biopesticides.*

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

*Results: Included in the new food uses registered are 35 reduced-risk use associated with 5 conventional pesticides, as well as the 8 biopesticide new uses, for a total of 43 reduced-risk new uses.*



**PRINCIPAL  
FINANCIAL STATEMENTS**

# Principal Financial Statements

## Financial Statements

Balance Sheet	9
Statement of Net Cost	10
Statement of Changes in Net Position	11
Statement of Budgetary Resources	12

## Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies	13
Note 2. Fund Balance with Treasury	17
Note 3. Other Assets-Advances to Working Capital Fund	17
Note 4. General Property, Plant and Equipment	17
Note 5. Other Liabilities	18
Note 6. Payroll and Benefits Payable, Non-Federal	18
Note 7. Income and Expenses from Other Appropriations	19
Note 8. Exchange Revenues, Statement of Net Cost	19
Note 9. Intragovernmental Costs and Exchange Revenue	20
Note 10. Reconciliation of Net Cost of Operations to Budget	21
Note 11. Restatements	22

**United States Environmental Protection Agency**  
**PRIA**  
**Balance Sheet**  
**As of September 30, 2017 and 2016 (Restated)**  
**(Dollars in Thousands)**

	<b>FY 2017</b>	<b>Restated FY 2016</b>
<b>Assets:</b>		
Intragovernmental:		
Fund Balance With Treasury (Note 2)	\$ 22,405	\$ 22,471
Other (Note 3)	15	8
Total Intragovernmental	22,420	22,479
Property, Plant & Equipment, Net (Notes 4 and 11)	292	376
Total Assets (Note 11)	<b>\$ 22,712</b>	<b>\$ 22,855</b>
<b>Liabilities:</b>		
Intragovernmental:		
Accounts Payable and Accrued Liabilities	40	59
Other (Note 5)	278	248
Total Intragovernmental	318	307
Accounts Payable & Accrued Liabilities	929	602
Payroll & Benefits Payable (Note 6)	4,080	1,640
Other (Note 5)	19,803	20,494
Total Liabilities	<b>\$ 25,130</b>	<b>\$ 23,043</b>
<b>Net Position:</b>		
Cumulative Results of Operations		
Funds from Dedicated Collections (Note 11)	(2,418)	(188)
Total Net Position (Note 11)	(2,418)	(188)
Total Liabilities and Net Position (Note 11)	<b>\$ 22,712</b>	<b>\$ 22,855</b>

The accompanying footnotes are an integral part of these financial statements

**United States Environmental Protection Agency  
 PRIA  
 Statement of Net Cost  
 For the Fiscal Years Ending September 30, 2017 and 2016 (Restated)  
 (Dollars in Thousands)**

	<b>FY 2017</b>	<b>Restated FY 2016</b>
<b>Costs:</b>		
Gross Costs (Note 9 and 11)	\$ 21,957	\$ 17,676
Expenses from Other Appropriations (Note 7)	35,399	31,134
Total Costs	57,356	48,810
Less:		
Earned Revenue (Note 8 and 9)	20,773	20,677
<b>Net Cost of Operations (Notes 10 and 11)</b>	<b>\$ 36,583</b>	<b>\$ 28,133</b>

The accompanying footnotes are an integral part of these financial statements

**United States Environmental Protection Agency**  
**PRIA**  
**Statement of Changes in Net Position**  
**For the Fiscal Years Ending September 30, 2017 and 2016 (Restated)**  
**(Dollars in Thousands)**

	<b>FY 2017</b>	<b>Restated FY 2016</b>
<b>Cumulative Results of Operations:</b>		
<b>Net Position - Beginning of Period</b>	\$ (188)	\$ 1,018
Adjustment:		
Correction of Errors (Notes 4 and 11)	-	(1,238)
Beginning Balances	(188)	(220)
<b>Budgetary Financing Sources:</b>		
Nonexchange Revenue - Securities Investment	82	15
Nonexchange Revenue - Other	(1,435)	(3,435)
Income from Other Appropriations (Note 7)	35,399	31,134
Total Budgetary Financing Sources	34,046	27,714
<b>Other Financing Sources (Non-Exchange):</b>		
Imputed Financing Sources	307	451
Total Other Financing Sources	307	451
Net Cost of Operations (Notes 9 and 11)	(36,583)	(28,133)
Net Change (Note 11)	(2,230)	32
<b>Cumulative Results of Operations (Note 11)</b>	<b>\$ (2,418)</b>	<b>\$ (188)</b>

The accompanying footnotes are an integral part of these financial statements

**United States Environmental Protection Agency**  
**PRIA**  
**Statement of Budgetary Resources**  
**For the Fiscal Years Ending September 30, 2017 and 2016**  
**(Dollars in Thousands)**

	<u>FY 2017</u>	<u>FY 2016</u>
<b>Budgetary Resources</b>		
Unobligated balance, brought forward, October 1:	\$ 12,889	\$ 13,540
Unobligated Balance Brought Forward, October 1, as adjusted	12,889	13,540
Recoveries of prior year unpaid obligations	32	366
Unobligated balance from prior year budget authority, net	12,921	13,906
Appropriations (discretionary and mandatory)	18,992	18,609
<b>Total Budgetary Resources</b>	<b>\$ 31,913</b>	<b>\$ 32,515</b>
<b>Status of Budgetary Resources</b>		
Obligations Incurred	20,636	19,626
Unobligated Balance, end of year:		
Apportioned	9,285	9,355
Unapportioned	1,992	3,533
Total Unobligated balance, end of period	11,277	12,889
<b>Total Status of Budgetary Resources</b>	<b>\$ 31,913</b>	<b>\$ 32,515</b>
<b>Change in Obligated Balance</b>		
Unpaid Obligations:		
Unpaid obligations, brought forward, October 1 (gross)	9,054	6,285
Obligated balance, start of year (net), before adjustments	9,054	6,285
Obligated balance, start of year (net), as adjusted	9,054	6,285
Obligations incurred, net	20,636	19,626
Outlays (gross)	(19,141)	(16,491)
Recoveries of prior year unpaid obligations	(32)	(366)
Obligated balance, end of period		
Unpaid obligations, end of year (gross)	10,517	9,054
Obligated balance, end of year (net)	<b>\$ 10,517</b>	<b>\$ 9,054</b>
<b>Budget authority and outlays, net</b>		
Budget authority, gross (discretionary and mandatory)	18,992	18,609
Budget Authority, net (discretionary and mandatory)	<b>\$ 18,992</b>	<b>\$ 18,609</b>
Outlays, gross (discretionary and mandatory)	19,141	16,491
Outlays, net (discretionary and mandatory)	19,141	16,491
Distributed offsetting receipts	(18,992)	(18,304)
Agency outlays, net (discretionary and mandatory)	<b>\$ 149</b>	<b>\$ (1,813)</b>

The accompanying footnotes are an integral part of these financial statements

**Environmental Protection Agency**  
**PRIA**  
**Notes to Financial Statements**  
**For the Fiscal Years Ending September 30, 2017 and 2016 (Restated)**  
**(Dollars in Thousands)**

*Note 1. Summary of Significant Accounting Policies*

**A. Reporting Entity**

The U.S. Environmental Protection Agency (EPA or Agency) 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 Pesticide Registration Fund (PRIA) is authorized under the Pesticide Registration Improvement Act of 2003 (which amended the Federal Insecticide, Fungicide, and Rodenticide Act (FIFRA)), and became effective on March 23, 2004. This Act authorizes 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 the Registration Division 2003 Work Plan of the Office of Pesticide Programs. The Pesticide Registration Improvement Renewal Act (commonly referred to as PRIA II) extended the authority to collect pesticide registration service fees through FY 2012. PRIA II became effective October 1, 2007. PRIA II was reauthorized with the passage of the Pesticide Registration Improvement Extension Act (referred to as PRIA III) on September 28, 2012. PRIA III became effective October 1, 2012, and authorized collection of registration fees through FY 2017. The PRIA Fund is accounted for under Treasury symbol number 68X5374.

The PRIA fund 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 fiscal years 2017 and 2016 were \$35,399 thousand and \$31,134 thousand, respectively. This amount was included as Income from Other Appropriations on the Statement of Changes in Net Position and as Expenses from Other Appropriations on the Statement of Net Cost for FYs 2017 and 2016.

**B. Basis of Presentation**

These financial statements have been prepared to report the financial position and results of operations of the EPA for the Pesticide Registration Fund (PRIA) as required by the Chief Financial Officers Act of 1990 and the Pesticide Registration Improvement Act (PRIA) of 2003. In the prior years, pesticide registration was included in the FIFRA financial statements. The reports have been prepared from the books and records of the EPA in accordance with Office of



Management and Budget (OMB) Circular A-136 *Financial Reporting Requirements*, and the EPA's accounting policies which are summarized in this note. These statements are therefore different from the financial reports also prepared by the EPA pursuant to OMB directives that are used to monitor and control the EPA's use of budgetary resources. The balances in these reports have been updated from the EPA consolidated financial statements to reflect the use of FY 2017 cost factors for calculating imputed costs for Federal civilian benefits programs. These updates impact the Balance Sheet, Statement of Net Cost, and Statement of Changes in Net Position.

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

Funding for PRIA is provided by fees collected from industry to offset costs incurred by EPA in carrying out these programs. Each year, the EPA submits an apportionment request to OMB based on the anticipated collections of industry fees.

### **D. Basis of Accounting**

Generally Accepted Accounting Principles (GAAP) for Federal entities is the standard prescribed by the Federal Accounting Standards Advisory Board (FASAB), which is the official standard setting body for the federal government. The financial statements are prepared in accordance with GAAP for federal entities.

Transactions are recorded on an accrual accounting basis and a budgetary basis. Under the accrual method, revenues are recognized when earned and expenses are recognized when a liability is incurred, without regard to receipt or payment of cash. Budgetary accounting facilitates compliance with legal constraints and controls over the use of Federal funds. All interfund balances and transactions have been eliminated.

### **E. Revenues and Other Financing Sources**

For FYs 2017 and 2016, PRIA received funding from fees collected from registrants requesting pesticide registrations. For FYs 2017 and 2016, revenues were recognized from fee collections to the extent that expenses are incurred during the fiscal year.

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

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

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

Investments in U. S. government securities are maintained by Treasury and are reported at amortized cost net of unamortized discounts. Discounts are amortized over the term of the investments and reported as interest income. PRIA 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.

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

General property, plant and equipment for PRIA consists of software in production. Internal use software includes purchased commercial off-the-shelf software, contractor developed software and software that was internally developed by Agency employees. In FY 2017, the EPA reviewed its capitalization threshold levels for PP&E. The Agency performed an analysis of the values of software assets and increases the capitalization threshold from \$250 thousand to \$5 million to better align with major software acquisition investments. The \$5 million threshold will be applied prospectively to software acquisitions and modifications/enhancements placed into service after September 30, 2016. Software assets placed into service prior to October 1, 2016 were capitalized at the \$250 thousand threshold. Internal use software is capitalized at full cost (direct and indirect) and amortized using the straight-line method over its useful life, not exceeding five years.

## **I. Liabilities**

Liabilities represent the amount of monies or other resources that are likely to be paid by the Agency as the result of an Agency transaction or event that has already occurred and can be reasonably estimated. However, no liability can be paid by the Agency without an appropriation or other collections. Liabilities for which an appropriation has not been enacted are classified as unfunded liabilities and there is no certainty that the appropriations will be enacted. For PRIA, liabilities are liquidated from fee receipts, since PRIA receives no appropriation. Fees collected by the Agency are classified as unearned revenue until expended (see Note 5). Liabilities of the Agency arising from anything other than contracts can be abrogated by the Government acting in its sovereign capacity.

## **J. Accrued Unfunded Annual Leave**

Annual, sick and other leave is expensed as taken during the fiscal year. Sick leave earned but not taken is not accrued as a liability. Annual leave earned but not taken as of the end of the fiscal year is accrued as an unfunded liability. Accrued unfunded annual leave is included in the Balance Sheet as a component of "Payroll and Benefits Payable."

## **K. Retirement Plan**

There are two primary retirement systems for Federal employees. Employees hired prior to January 1, 1987, may participate in the Civil Service Retirement System (CSRS). On January 1, 1984, the Federal Employees Retirement System (FERS) went into effect pursuant to Public Law 99-335. Most employees hired after December 31, 1983, are automatically covered by FERS and Social Security. Employees hired prior to January 1, 1984, elected to either join FERS and

Social Security or remain in CSRS. A primary feature of FERS is that it offers a savings plan to which the Agency automatically contributes one percent of pay and matches any employee contributions up to an additional four percent of pay. The Agency also contributes the employer's matching share for Social Security.

With the issuance of SFFAS No. 5, "Accounting for Liabilities of the Federal Government," accounting and reporting standards were established for liabilities relating to the federal employee benefit programs (Retirement, Health Benefits, and Life Insurance). SFFAS No. 5 requires that the employing agencies recognize the cost of pensions and other retirement benefits during their employees' active years of service. SFFAS No. 5 requires that the Office of Personnel Management (OPM), as administrator of the CSRS and FERS, the Federal Employees Health Benefits Program, and the Federal Employees Group Life Insurance Program, provide federal agencies with the actuarial cost factors to compute the liability for each program.

#### **L. Offsetting Receipts**

Beginning in FY 2007 OMB Circular A-136, *Financial Reporting Requirements*, requires that the amount of distributed offsetting receipts reported in the Statement of Budgetary Resources (SBR) should equal the amount recorded as offsetting receipts by the Department of the Treasury (Treasury). Pesticide Registration Fees collected under PRIA are considered to be offsetting receipts by Treasury.

#### **M. Use of Estimates**

The preparation of financial statements requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

#### **N. Prior Period Adjustments and Restatements**

Prior period adjustments, if any, are made in accordance with SFFAS No. 21, "Reporting Corrections of Errors and Changes in Accounting Principles." Specifically, prior period adjustments will only be made for material prior period errors to: (1) the current period financial statements, and (2) the prior period financial statements presented for comparison. Adjustments related to changes in accounting principles will only be made to the current period financial statements, but not to prior period financial statements presented for comparison.

**Note 2. Fund Balance with Treasury**

	<b>FY 2017</b>	<b>FY 2016</b>
Revolving Funds: Entity Assets	<u>\$ 22,405</u>	<u>\$ 22,471</u>

**Note 3. Other Assets-Advances to Working Capital Fund**

PRIA advances funds to the EPA’s Working Capital Fund to pay for computer, postage, and other administrative support services. As of September 30, 2017 and 2016, funds advanced that will be applied to future costs as incurred were \$15 thousand and \$8 thousand, respectively.

**Note 4. General Property, Plant and Equipment, Net**

General property, plant and equipment includes the EPA-Held personal property, software, and software in development.

In FY 2015, the Agency initiated an intensive remediation effort to address the material weakness of accounting for software. The Agency disclosed a material weakness through its internal control review of software capitalization processes in FY 2014. The material weakness was cited in the “Audit of the EPA’s Fiscal Year’s 2014 and 2013 (Restated) Consolidated Financial Statements” report, dated November 17, 2014. The agency expects to resolve this material weakness in FY 2018. Please see Note 11, Restatements, for further information on the impact of the material weakness remediation on software.

As of September 30, 2017, and 2016 (Restated), General Property, Plant and Equipment consist of the following:

	<b>FY 2017</b>			<b>FY 2016 (Restated)</b>		
	Acquisition Value	Accumulated Depreciation	Net Book Value	Acquisition Value	Accumulated Depreciation	Net Book Value
EPA-Held Equipment	\$ 35	(35)	-	\$ 35	(35)	-
Software	5,050	(4,758)	292	5,050	(4,674)	376
Total	<u>\$ 5,085</u>	<u>(4,793)</u>	<u>292</u>	<u>\$ 5,085</u>	<u>(4,709)</u>	<u>376</u>

**Note 5. Other Liabilities**

For FYs 2017 and 2016, Payroll and Benefits Payable, non-federal, are presented on a separate line of the Balance Sheet and in a separate footnote (see Note 6).

	<u>FY 2017</u>	<u>FY 2016</u>
Other Intragovernmental Liabilities - Covered by Budgetary Resources		
Employer Contributions - Payroll	\$ 278	\$ 248
Total	<u>\$ 278</u>	<u>\$ 248</u>
Other Non-Federal Liabilities - Covered by Budgetary Resources		
Unearned Advances from Fee Collections*	\$ 19,803	\$ 20,494
Total	<u>\$ 19,803</u>	<u>\$ 20,494</u>

\*Fees collected by the PRIA program that have not yet been expended are considered unearned revenue. Unearned revenue will fluctuate in conjunction with expenses paid from other appropriations and program expenses (see Note 7).

**Note 6. Payroll and Benefits Payable, Non-Federal:**

	<u>FY 2017</u>	<u>FY 2016</u>
Covered by Budgetary Resources		
Accrued Payroll Payable to Employees	\$ 1,372	\$ 1,192
Withholdings Payable	67	54
Thrift Savings Plan Benefits Payable	60	52
Total	<u>\$ 1,499</u>	<u>\$ 1,298</u>
Not Covered by Budgetary Resources		
Unfunded Annual Leave	2,581	342
Total	<u>\$ 2,581</u>	<u>\$ 342</u>

At various periods throughout FY 2017 and FY 2016 employees with their associated payroll costs were transferred from PRIA to the Environmental Programs and Management (EPM) appropriation. These employees were transferred to keep PRIA's obligations and disbursements within budgetary limits.

This process has led to variations between the year-end liabilities of FYs 2017 and 2016. The liabilities covered by budgetary resources (both intragovernmental and non-Federal) represent unpaid payroll and benefits at year-end. As of September 30, 2017, the liabilities were \$278 thousand and \$1,499 thousand for employer contributions and accrued funded payroll and benefits as compared to FY 2016's balances of \$248 thousand and \$1,298 thousand, respectively.

In contrast, the unfunded annual leave liability is a longer term liability than the funded liabilities. The liability balance for unfunded annual leave accrued to cover the employees charged to PRIA at the end of FY 2017 and 2016 was \$2,581 and \$342 thousand, respectively.

**Note 7. 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 2017 and 2016, the 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.

In FY 2017, EPA implemented a new methodology to capture direct and indirect costs for PRIA. Improvements to the costing methodology include a project schema that designates expenses paid by other appropriations as PRIA related activities. As illustrated below, there is no impact on PRIA's Statement of Changes in Net Position.

	Income from Other Appropriations	Expenses from Other Appropriations	Net Effect
<b>FY 2017</b>	\$ 35,399	35,399	-
<b>FY 2016</b>	\$ 31,134	31,134	-

**Note 8. Exchange Revenues, Statement of Net Cost**

For FYs 2017 and 2016, the exchange revenues reported on the Statement of Net Cost consists of non-Federal amounts.

**Note 9. Intragovernmental Costs and Exchange Revenue**

<b>Costs:</b>	<b>FY 2017</b>	<b>FY 2016 (Restated)</b>
Intragovernmental	\$ 3,071	\$ 3,192
With the Public	18,886	14,484
Expenses from Other Appropriations	35,399	31,134
Total Costs	<u>57,356</u>	<u>48,810</u>
<b>Revenue:</b>		
With the Public	<u>20,773</u>	<u>20,677</u>
Total Revenue	20,773	20,677
<b>Net Cost of Operations:</b>	\$ <u>36,583</u>	\$ <u>28,133</u>

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



**Note 10. Reconciliation of Net Cost of Operations to Budget**

	<u>FY 2017</u>	<u>Restated FY 2016</u>
<b>Resources Used to Finance Activities:</b>		
Budgetary Resources Obligated		
Obligations Incurred	\$ 20,636	\$ 19,626
Less: Spending Authority from Offsetting Collections and Recoveries	<u>(32)</u>	<u>(366)</u>
Obligations, Net of Offsetting Collections	20,604	19,260
Less: Offsetting Receipts	<u>(18,992)</u>	<u>(18,304)</u>
Net Obligations	1,612	956
Other Resources		
Imputed Financing Sources	307	451
Income from Other Appropriations	<u>35,399</u>	<u>31,134</u>
Net Other Resources Used to Finance Activities	35,706	31,585
Total Resources Used To Finance Activities	<u>\$ 37,318</u>	<u>\$ 32,541</u>
<b>Resources Used to Finance Items</b>		
<b>Not Part of the Net Cost of Operations:</b>		
Change in Budgetary Resources Obligated	1,303	(3,294)
Resources that Finance Asset Acquisition	-	820
Offsetting Receipts Not Affecting Net Cost	<u>18,992</u>	<u>18,304</u>
Total Resources Used to Finance Items Not Part of the Net Cost of Operations	<u>20,295</u>	<u>15,830</u>
Total Resources Used to Finance the Net Cost of Operations	<u>\$ 57,613</u>	<u>\$ 48,371</u>
<b>Components of the Net Cost of Operations that Will</b>		
<b>Not Require or Generate Resources in the Current Period:</b>		
Components Requiring or Generating Resources in Future Periods:		
Increase in Annual Leave Liability	(341)	(280)
Increase in Public Exchange Revenue Receivables	<u>(20,773)</u>	<u>(20,677)</u>
Total Components of Net Cost of Operations that Require or Generate Resources in Future Periods	(21,114)	(20,957)
Components Not Requiring/Generating Resources:		
Depreciation and Amortization	84	704
Expenses Not Requiring Budgetary Resources	<u>-</u>	<u>15</u>
Total Components of Net Cost that Will Not Require or Generate Resources	84	719
Total Components of Net Cost of Operations That Will Not Require or Generate Resources in the Current Period	<u>(21,030)</u>	<u>(20,238)</u>
<b>Net Cost of Operations</b>	<u>\$ 36,583</u>	<u>\$ 28,133</u>

**Note 11. Restatements**

In accordance with OMB Circular A-123, the EPA performed a review of its capital software commencing in FY 2014. The review identified the following issues:

1. Entries under \$250,000 were not capitalized.
2. Some entries had incorrect accounting strings.
3. Credit/debit lines were combined to correct transaction amounts.

To address these findings, the EPA revised its capitalized software procedures, resulting in the Agency correcting values and accounting for all software projects. The EPA performed corrections to fix the value of the software assets that were determined to be understated.

As a result of the agency corrections, the EPA restated the FY 2016 PRIA financial statements, which are presented in the FY 2017 and FY 2016 comparative financial statements. The changes impacted the beginning balances for the FY 2016 Balance Sheet and Statement of Changes in Net Position and the FY 2016 Statement of Net Cost.

	<b>FY 2016, as Previously Reported</b>	<b>Adjustment</b>	<b>FY 2016, as Restated</b>
<b>Balance Sheet</b>			
Property, Plant & Equipment, Net	\$ 1,536	\$ (1,160)	\$ 376
Total Assets	24,015	(1,160)	22,855
Cumulative Results of Operations - Funds from Dedicated Collections	972	(1,160)	(188)
Total Net Position	972	(1,160)	(188)
Total Liabilities and Net Position	\$ 24,015	\$ (1,160)	\$ 22,855
<b>Statement of Net Cost</b>			
Gross Costs	\$ 17,754	\$ (78)	\$ 17,676
Net Cost of Operations	\$ 28,211	\$ (78)	\$ 28,133
<b>Statement of Changes in Net Position</b>			
Net Position Beginning of Period	\$ 1,018	\$ (1,238)	\$ (220)
Net Cost of Operations	(28,211)	78	(28,133)
Net Change	(46)	78	32
Cumulative Results of Operations	\$ 972	\$ (1,160)	\$ (188)

## Agency Response to Draft Report



UNITED STATES ENVIRONMENTAL PROTECTION AGENCY

WASHINGTON, D.C. 20460

MAY 23 2019

OFFICE OF THE  
CHIEF FINANCIAL OFFICER

### MEMORANDUM

**SUBJECT:** Response to the Office of Inspector General's Draft Report No. OA-FY18-0087, "EPA's Fiscal Years 2017 and 2016 (Restated) Financial Statements for the Pesticide Registration Fund," dated May 8, 2019

**FROM:** Holly W. Greaves, Chief Financial Officer  
Office of the Chief Financial Officer

A handwritten signature in blue ink, appearing to read "Holly Greaves".

**TO:** Paul C. Curtis, Director  
Financial Directorate  
Office of Inspector General

Thank you for the opportunity to respond to the issues and recommendation in the draft report. The following is a summary of the U.S. Environmental Protection Agency's overall position on the report. For the report recommendation with which the agency agrees, we have provided a high-level corrective action and completion date.

### AGENCY'S OVERALL POSITION

The EPA follows the National Archives and Records Administration records management guidance and corresponding EPA records management schedules that provide guidance for the retention, destruction, and maintenance of federal records. In the case of the Pesticide Registration Information System records referenced in the subject audit report, the EPA followed applicable records management schedules for the disposition of the PRISM software files. Nevertheless, the agency concurs with the report recommendation.

**AGENCY'S RESPONSE TO AUDIT RECOMMENDATIONS**

<b>No.</b>	<b>Recommendation</b>	<b>Assigned to:</b>	<b>High-Level Intended Corrective Action(s)</b>	<b>Estimated Completion by Quarter and FY</b>
1	Analyze agency records management schedules for financial management and determine how long records should be maintained after the disposal of software and financial records related to software assets.	OCFO-OC	Concur. The EPA updated its <i>Internal Use Software Capitalization Policy</i> , Resources Management Directive System Number 2540-11-T1, to include language that records related to capitalized software assets must be maintained three years post decommission date of the software.	Completed 8/30/2018

**CONTACT INFORMATION**

If you have any questions regarding this response, please contact the OCFO's Audit Follow-up Coordinator, Benita Deane, at [deane.benita@epa.gov](mailto:deane.benita@epa.gov) or (202) 564-2079.

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Audit Follow-Up Coordinators, Regions 1–10