



OFFICE OF INSPECTOR GENERAL U.S. ENVIRONMENTAL PROTECTION AGENCY

CUSTOMER SERVICE ★ INTEGRITY ★ ACCOUNTABILITY

Operating efficiently and effectively

EPA's Fiscal Years 2020 and 2019 (Restated) Financial Statements for the Pesticides Reregistration and Expedited Processing Fund

Report No. 22-F-0012

December 21, 2021



Report Contributors: Safiya Chambers
Paul Curtis
Robert Hairston
Tanishia Heilig
Damon Jackson
Sheree James
Elizabeth Kleisinger
Ethel Lowery
Guillermo Mejia
Demetrios Papakonstantinou
Lynda Taylor
Philip Weihrouch

Abbreviations: EPA U.S. Environmental Protection Agency
FIFRA Federal Insecticide, Fungicide, and Rodenticide Act
OIG Office of Inspector General
U.S.C. United States Code

Cover Image: Pesticide sprayers are used to control weeds and insects in field crops.
(EPA photo)

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EPA Office of Inspector General

1200 Pennsylvania Avenue, NW (2410T)
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(202) 566-2391
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Office of Inspector General U.S. Environmental Protection Agency

At a Glance

22-F-0012
December 21, 2021

Why We Did This Audit

The Food Quality Protection Act requires that the U.S. Environmental Protection Agency's Office of Inspector General perform an annual audit of the financial statements for the Pesticides Reregistration and Expedited Processing Fund, also known as the Federal Insecticide, Fungicide, and Rodenticide Act Fund. The EPA is responsible for reassessing the safety of older pesticide registrations against modern health and environmental testing standards.

To expedite the reregistration process, Congress authorized the EPA to collect fees from pesticide manufacturers. These fees are deposited into the fund. Each year, the Agency prepares financial statements that present information about the fund, along with information about the EPA's progress in reregistering pesticides.

This audit supports an EPA mission-related effort:

- *Operating efficiently and effectively.*

This audit addresses a top EPA management challenge:

- *Managing infrastructure funding and business operations.*

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[List of OIG reports.](#)

EPA's Fiscal Years 2020 and 2019 (Restated) Financial Statements for the Pesticides Reregistration and Expedited Processing Fund

EPA Receives an Unmodified Opinion for Fiscal Years 2020 and 2019 (Restated)

We rendered an unmodified opinion on the EPA's fiscal years 2020 and 2019 (restated) Federal Insecticide, Fungicide, and Rodenticide Act, or FIFRA, Fund financial statements, meaning that the statements were fairly presented and free of material misstatement.

We found the fund's financial statements to be fairly presented and free of material misstatement.

Material Weakness and Significant Deficiency Noted

We noted the following material weakness: the EPA materially misstated the FIFRA income and expenses from other appropriations.

We noted the following significant deficiency: the EPA needs to improve its financial statement preparation process.

The significant deficiency was initially reported in OIG Report No. [21-F-0014](#), *EPA's Fiscal Year's 2020 and 2019 (Restated) Consolidated Financial Statements*, issued November 16, 2020. We are reporting this significant deficiency for the FIFRA Fund financial statements.

Compliance with Applicable Laws, Regulations, Contracts, and Grant Agreements

We did not identify any noncompliance that would result in a material misstatement to the audited financial statements. In addition, the Agency was in substantial compliance with the statutory performance measures.

Recommendations and Planned Agency Corrective Actions

We recommend that the chief financial officer correct the calculation of and document control activities and procedures for "Income and Expenses from Other Appropriations." The EPA agreed with our recommendations and has indicated that it completed the corrective actions. We confirmed that the Agency corrected the calculation. We will verify that the Agency updated its control activities and procedures during a subsequent audit.

We also recommend that the chief financial officer develop a plan to strengthen and improve the preparation and management review of the financial statements and adjustments. The Agency concurred with our recommendation and provided acceptable planned corrective actions. This recommendation is resolved with corrective actions pending.



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

OFFICE OF
INSPECTOR GENERAL

December 21, 2021

MEMORANDUM

SUBJECT: EPA's Fiscal Years 2020 and 2019 (Restated) Financial Statements for the Pesticides Reregistration and Expedited Processing Fund
Report No. 22-F-0012

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

A handwritten signature in black ink, appearing to read "Paul C. Curtis", is written over the typed name.

TO: Faisal Amin, Chief Financial Officer

This is our report on the subject audit conducted by the Office of Inspector General of the U.S. Environmental Protection Agency. The project number for this audit was [OA-FY21-0082](#). This report contains findings that describe the problems the OIG has identified and the corrective actions the OIG recommends. Final determination on matters in this report will be made by EPA managers in accordance with established audit resolution procedures.

The Office of the Chief Financial Officer has primary responsibility for the issues discussed in the report.

In accordance with EPA Manual 2750, your office provided acceptable planned corrective actions and estimated milestone dates in response to the OIG's recommendations. All recommendations are resolved, and no final response to this report is required. If you submit a response, however, 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 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.

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Inspector General's Report on the Fiscal Years 2020 and 2019 (Restated) Financial Statements for the Pesticides Reregistration and Expedited Processing Fund

The Administrator
U.S. Environmental Protection Agency

Report on the Financial Statements

We have audited the accompanying financial statements of the U.S. Environmental Protection Agency's Pesticides Reregistration and Expedited Processing Fund, also known as the Federal Insecticide, Fungicide, and Rodenticide Act, or FIFRA, Fund. These statements comprise the balance sheets as of September 30, 2020, and September 30, 2019 (restated); related statements of net cost and changes in net position; the statement of budgetary resources for the years then ended; and the 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 control 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 our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial statements contained in *Government Auditing Standards*, issued by the comptroller general of the United States of America; and Office of Management and Budget Bulletin 21-04, *Audit Requirements for Federal Financial Statements*. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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 judgment, including the assessment of the risks of material misstatement 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 in order 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.

Opinion

In our opinion, the financial statements referred to above, including the accompanying notes, present fairly, in all material respects, the assets, liabilities, net position, net cost, changes in net position, and budgetary resources of the Pesticides Reregistration and Expedited Processing Fund as of and for the years ended September 30, 2020 and 2019, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter—Restatement of Fiscal Year 2019

As described in Note 14 to the financial statements, the EPA made certain restatements in its fiscal year 2019 FIFRA Fund financial statements to correct misstatements for the unexpended appropriations and the unfunded leave accrual. The restatement impacted the following line items on the financial statements:

- Balance Sheet: payroll and benefits payable, total liabilities, cumulative results of operations, and total liabilities and net position.
- Statement of Net Cost: gross cost and net cost of operations.
- Statement of Changes in Net Position: beginning of period, total budgetary financing resources, net cost of operations, net change, and total net position.

Our opinion is not modified with respect to these corrections.

Report on Internal Control over Financial Reporting

Opinion on Internal Control. In planning and performing our audit of the financial statements of the Pesticides Reregistration and Expedited Processing Fund as of and for the year ended September 30, 2020, in accordance with auditing standards generally accepted in the United States of America, we considered the fund's internal control over financial reporting as a basis for designing our audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on the financial statements and to comply with the Office of Management and Budget's audit guidance, but not to express an opinion on the effectiveness of the fund's internal control. Accordingly, we do not express an opinion on the effectiveness of the fund's internal control over financial reporting.

Material Weaknesses and Significant Deficiencies. Our consideration of internal control was for the limited purpose of expressing an opinion on the fund's financial statements and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, such deficiencies in internal control may exist that were not identified during the course of our audit. A deficiency in internal control over financial reporting 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 over financial reporting, 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 over financial reporting that is less severe than a material weakness yet important enough to merit attention by those charged with governance.

We noted one matter that we consider to be a material weakness and one significant deficiency. These issues are summarized below and detailed in Attachments 1 and 2.

Material Weakness

EPA Materially Misstated FIFRA Income and Expenses from Other Appropriations

The EPA materially misstated the on-top adjustment involving the FIFRA Fund income and expenses from other appropriations by over \$7.4 million. Office of Management and Budget Circular A-136, *Financial Reporting Requirements*, section II.3, requires that information in financial statements be presented in accordance with generally accepted accounting principles and that the statements report the full cost of each program's output. EPA personnel did not accurately capture certain amounts that should have been part of the calculation for on-top adjustment. If the EPA does not exercise due diligence in the preparation of its on-top adjustments and financial statements, it risks compromising the accuracy of the financial statements and the reliance of the public and other interested parties on them to be free of material misstatement.

Significant Deficiency

EPA Needs to Improve Its Financial Statement Preparation Process

We found instances, as described in Attachment 2, in which the EPA had misstated its on-top adjustments and financial statements. Office of Management and Budget Circular A-136, *Financial Reporting Requirements*, requires that information in financial statements be prepared in accordance with generally accepted accounting principles and that material misstatements be identified and explained. Statement of Federal Financial Accounting Standards 21, *Reporting Corrections of Errors and Changes in Accounting Principles, Amendment of SFFAS 7, Accounting for Revenue and Other Financing Sources*, further requires that the entity disclose the nature of an error. EPA personnel initially did not make appropriate adjustments to financial statements because they believed that their accounting was accurate. If the EPA does not properly record financial adjustments and exercise due diligence in the preparation and management review of financial statements, it risks compromising the accuracy of the financial statements and the reliance of the public and other interested parties on them to be free of material misstatement.

Comparison of EPA's Federal Managers' Financial Integrity Act Report with Our Evaluation of Internal Control

Office of Management and Budget Bulletin 21-04 requires the Office of Inspector General to compare material weaknesses disclosed during the audit with those material weaknesses reported in the Agency's Federal Managers' Financial Integrity Act report that relate to the financial statements and identify material weaknesses disclosed by the audit that were not reported in the Agency's report. The Agency's report is prepared and submitted at the consolidated level, of which the FIFRA Fund is a component. Accordingly, there are no findings to report at the FIFRA Fund level.

Report on 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 and the fund. As part of obtaining reasonable assurance about whether the fund's financial statements are free of material misstatement, we performed tests of the Agency's 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 fund's financial statements. However, since this testing was limited in scope, we did not issue a related opinion, as stated below.

Opinion on Compliance with Laws, Regulations, Contracts, and Grant Agreements

Providing an opinion on compliance with certain provisions of laws, regulations, contracts, and grant agreements was not an objective of our audit and, 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.

Other Governmental Reporting Requirements

Performance Measures

FIFRA requires the OIG to audit the administrator's attainment of performance measures and goals established. Based on our audit, we found that statutory performance measures were in substantial compliance with the FIFRA Fund.

Management's Discussion and Analysis

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Management's Discussion and Analysis is presented for the purpose of additional analysis and is not a required part of the basic financial statements. Such information is the management's responsibility. We obtained information from the fund's management about its methods for preparing the Management's Discussion and Analysis, and we reviewed this information for consistency with the financial statements.

Our audit was not designed to express an opinion and, accordingly, we do not express an opinion on the fund's Management's Discussion and Analysis.

We did not identify any material inconsistencies between the information presented in the fund's financial statements and the information presented in the Management's Discussion and Analysis.

Prior Audit Coverage

During a previous audit of the FIFRA Fund's financial statements—OIG Report No. [20-F-0308](#), *Fiscal Years 2019 and 2018 Financial Statements for the Pesticides Reregistration and Expedited Processing*

Fund, issued September 8, 2020—we did not identify any instances of noncompliance that would result in a material misstatement to the audited financial statements. We did not have any recommendations in that report.

During a previous audit of the consolidated financial statements—OIG Report No. [21-F-0014](#), *EPA's Fiscal Year's 2020 and 2019 (Restated) Consolidated Financial Statements*, issued November 16, 2020—we reported a significant deficiency with the financial statement preparation. In fiscal year 2020, we found that the EPA continued to make misstatements and adjustment errors during its consolidated financial statement and component financial statement preparation processes.

We recommended that the Agency develop a plan to strengthen and improve the preparation and management review of the financial statements and adjustments entered into the accounting system so that errors and misstatements are detected and corrected in a timely manner. The Agency agreed with our recommendation and provided an estimated completion date of December 31, 2021.



Paul C. Curtis
Certified Public Accountant
Director, Financial Directorate
Office of Audit
Office of Inspector General
U.S. Environmental Protection Agency
December 17, 2021

Material Weakness

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1–EPA Materially Misstated FIFRA Income and Expenses from Other Appropriations

The EPA materially misstated the on-top adjustment involving the FIFRA Fund income and expenses from other appropriations by over \$7.4 million. Office of Management and Budget Circular A-136, *Financial Reporting Requirements*, section II.3, requires that information in financial statements be presented in accordance with generally accepted accounting principles and that the statements report the full cost of each program’s output. EPA personnel did not accurately capture certain amounts that should have been part of the calculation for the on-top adjustment. If the EPA does not exercise due diligence when preparing its on-top adjustments and financial statements, it risks compromising the accuracy of the financial statements and the reliance of the public and other interested parties on them to be free of material misstatement.

Generally accepted accounting principles include the Federal Accounting Standards Advisory Board’s Statement of Federal Financial Accounting Standards 4, *Managerial Cost Accounting Standards and Concepts*, which contains further guidance on these principles. Section II.3.3.3 of Office of Management and Budget Circular A-136, issued June 28, 2019, requires that entities report the full cost of each program’s output, which consists of:

(a) [D]irect and indirect costs of the output and (b) the costs of identifiable supporting services provided by other segments within the entity and by other entities. The entity should accumulate and assign costs in accordance with the costing methodology in the SFFAS [*Statement of Federal Financial Accounting Standards*] 4, as amended. Program costs should include any non-production costs that can be assigned to the program but not necessarily to its outputs.

The U.S. Government Accountability Office’s [GAO-14-704G](#), *Standards for Internal Control in the Federal Government*, known as the Green Book, requires that federal entities have internal control activities to ensure that they provide accurate and timely recording of transactions and events. We found that EPA personnel did not capture certain amounts that should have been part of the on-top adjustment calculation involving the “Income and Expenses from Other Appropriations” footnote. If the EPA does not properly analyze the effect of its on-top adjustments, it could continue to materially misstate its financial position, which could impact the reliability of its financial statements.

The Green Book defines the five components of internal control in government. These components are:

- Monitoring.
- Information and communication.
- Control activities.
- Risk assessment.
- Control environment.

Management should design control activities to achieve objectives and respond to risks. The standards for control activities require appropriate documentation of transactions and internal control. Management is to clearly document internal control, all transactions, and other significant events in a manner that allows the documentation to be readily available for examination. The standards for control activities require accurate and timely recording of transactions and events.

During our analysis, we found that the EPA materially misstated the on-top adjustment involving the FIFRA income and expenses from appropriations in its fiscal year 2020 draft financial statements by over \$7.4 million. Specifically, EPA personnel did not accurately capture amounts that should have been part of the calculation for the on-top adjustment and, therefore, misstated the net cost, changes in net position, and footnote 10, "Income and Expenses from Other Appropriations" in the FIFRA Funds' draft financial statements. The EPA informed us that there were amounts in "Expenses Without FIFRA Project Codes" in Funds B (Environmental Programs and Management) and C (Science and Technology) that were omitted from the fiscal year 2020 calculation. The EPA has discussed this error in the calculation methodology with the preparer and is in the process of correcting the on-top adjustments for the final financial statements.

If the EPA does not exercise due diligence when preparing its on-top adjustments and financial statements, then it risks compromising the accuracy of the financial statements and the reliance of the public and other interested parties on them to be free of material misstatement.

Recommendations

We recommend that the chief financial officer:

1. Correct the calculation in the Federal Insecticide, Fungicide, and Rodenticide Act 20-03 on-top adjustment to accurately capture the amounts for footnote 10, "Income and Expenses from Other Appropriations."
2. Document the control activities and procedures for calculating the income and expense amounts for footnote 10, "Income and Expenses from Other Appropriations."

Agency Response and OIG Assessment

The Agency agreed with our findings and recommendations and has indicated it has completed the corrective actions. We confirmed that the Agency corrected the calculation. We will verify that the Agency updated their control activities and procedures during a subsequent audit.

Significant Deficiency

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1–EPA Needs to Improve Its Financial Statement Preparation Process

We found instances in which the EPA had misstated its on-top adjustments and financial statements. Office of Management and Budget Circular A-136, *Financial Reporting Requirements*, requires that information in financial statements be prepared in accordance with generally accepted accounting principles and that material misstatements be identified and explained. Statement of Federal Financial Accounting Standards 21, *Reporting Corrections of Errors and Changes in Accounting Principles, Amendment of SFFAS 7, Accounting for Revenue and Other Financing Sources*, further requires that the entity disclose the nature of an error. EPA personnel initially did not make appropriate adjustments to financial statements because they believed that their accounting was accurate. If the EPA does not properly record financial adjustments and exercise due diligence in the preparation and management review of financial statements, it risks compromising the accuracy of the financial statements and the reliance of the public and other interested parties on them to be free of material misstatement.

Generally accepted accounting principles include the Federal Accounting Standards Advisory Board's Statement of Federal Financial Accounting Standards Number 21. Section II.3.8.37 of Office of Management and Budget Circular A-136 requires that entities explain material misstatements in the prior period's financial statements. In addition, if material misstatements are identified in the prior period's financial statements, the entity must explain the material misstatements in accordance with Statement of Federal Financial Accounting Standards Number 21, which requires that the entity disclose the nature of an error in providing issued financial statements and the effect of its correction on relevant balances. Financial statements for subsequent periods need not repeat the disclosures.

We found that EPA personnel initially did not make appropriate adjustments to financial statements because they believed that their accounting was accurate. If the EPA does not properly record accounting adjustments and exercise due diligence when preparing its financial statements, then it risks compromising the accuracy of the Agency's financial statements and the reliance of the public and other concerned parties on them to be free of material misstatement.

Management should design control activities to achieve objectives and respond to risks. The standards for control activities require appropriate documentation of transactions and internal control. According to the Green Book, management is to clearly document internal control, all transactions, and other significant events in a manner that allows the documentation to be readily available for examination. The standards for control activities require accurate and timely recording of transactions and events. The five components of internal control in government as described in the Green Book are listed in Attachment 1.

We found instances in which the EPA had misstated its on-top adjustments and financial statements. Specifically, we found that the EPA materially miscalculated the "Income and Expenses from Other Appropriations" footnote for FIFRA. In addition, the EPA did not ensure that the "Restatements" footnote in the FIFRA Funds' financial statements adhered to the *Statement of Federal Financial Accounting Standards*. We found the following:

- *Income and Expenses from Other Appropriations Footnote (Note 10)*. EPA personnel did not capture certain amounts that should have been part of the calculation for the on-top

adjustment involving the expenses from other appropriations and, thus, materially misstated the net cost and the changes in net position in the FIFRA Funds' draft financial statements. The EPA stated that there were amounts omitted from the fiscal year 2020 calculation. The EPA has discussed this error in the calculation methodology with the preparer and is in the process of correcting the on-top adjustment for the final financial statements.

- *Restatements Footnote (Note 14)*. The EPA did not adequately review the restatement footnote to ensure that it adhered to the Statement of Federal Financial Accounting Standards 21 requirement that material errors in prior issued financial statements be disclosed. While the "Restatements" footnote attempted to clarify the fiscal year 2019 financial reports by indicating the various financial statements and line items that are impacted by the restatement, the footnote did not make clear the effects of its correction on them. The EPA did not agree that the restatement footnote was not properly disclosed. However, it agreed to enhance the understanding of the footnote and add the dollar amounts of the errors to the footnote in the final statements.

During the financial statement preparation process, EPA staff did not detect and correct the error and misstatement detailed above. After we conducted an account analysis of the activity and questioned the Agency, staff stated that they will revise the current adjustments to correct the errors and misstatements that we found. This issue highlights the need for the EPA to strengthen its processes so that amounts and accounts are accurate and properly posted in the EPA's accounting system and so that the Agency complies with federal accounting standards.

If the EPA does not properly record financial adjustments and exercise due diligence in the preparation and management review of financial statements, it risks compromising the accuracy of the financial statements and the reliance of the public and other interested parties on them to be free of material misstatement.

Recommendation

We recommend that the chief financial officer:

3. Develop a plan to strengthen and improve the preparation and management review of the Federal Insecticide, Fungicide, and Rodenticide Act Fund financial statements and adjustments entered into the accounting system so that errors and misstatements are detected and corrected in a timely manner.

Agency Response and OIG Assessment

The Agency concurred with our recommendation and provided acceptable planned corrective actions. The Agency's estimated completion date for corrective actions is December 31, 2021. The Agency's response to the draft report can be found in Appendix B.

Status of Recommendations

RECOMMENDATIONS

Rec. No.	Page No.	Subject	Status ¹	Action Official	Planned Completion Date
1	8	Correct the calculation in the Federal Insecticide, Fungicide, and Rodenticide Act 20-03 on-top adjustment to accurately capture the amounts for footnote 10, "Income and Expenses from Other Appropriations."	C	Chief Financial Officer	12/2/21
2	8	Document the control activities and procedures for calculating the income and expense amounts for footnote 10, "Income and Expenses from Other Appropriations."	C*	Chief Financial Officer	12/2/21
3	11	Develop a plan to strengthen and improve the preparation and management review of the Federal Insecticide, Fungicide, and Rodenticide Act Fund financial statements and adjustments entered into the accounting system so that errors and misstatements are detected and corrected in a timely manner.	R	Chief Financial Officer	12/31/21

¹ C = Corrective action completed.

R = Recommendation resolved with corrective action pending.

U = Recommendation unresolved with resolution efforts in progress.

* OIG will verify completion of this recommendation during a subsequent audit.

***EPA's FYs 2020 and 2019 (Restated) Pesticide
Registration and Expedited Processing Fund Financial
Statements***

Fiscal Years 2020 and 2019 (Restated)
Pesticide Registration and Expedited Processing Fund
Financial Statements



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

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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.

In accordance with FIFRA and FFDCA, the pesticide program administers the Pesticides Reregistration and Expedited Processing Fund (FIFRA fund). As of 1996, fees for maintenance of pesticide registrations are deposited to the FIFRA fund, which is available to the EPA without further appropriation.

Under the FFDCA, EPA sets "tolerances", or maximum residue levels. If a pesticide is intended to be used in a manner that may result in residues in food or animal feed, the applicant must petition EPA for establishment of a tolerance (or exemption from a tolerance). Tolerances are set at levels that ensure a reasonable certainty of no harm from the potential pesticide residues in food combined with other non-occupational exposure.

The passage of the Food Quality Protection Act (FQPA) in 1996 provided for additional fees to support reregistration activities and required tolerances to be reassessed as part of the reregistration program. Effective January 1997, all fees related to tolerance activities were deposited in the FIFRA fund. With passage of the Pesticide Registration Improvement Act (PRIA 1) of 2003 and amendments in 2007, 2012 and 2019, no additional tolerance petition fees were to be deposited to the FIFRA fund through FY 2023. The second amendment to PRIA, the Pesticide Registration Improvement Extension Act of 2012 (PRIA 3), had a statutory expiration date of September 30, 2017. This expiration date was extended through fiscal year 2018 and part of fiscal year 2019 by legislative language contained in continuing resolutions and the 2018 omnibus spending bill, and therefore, the tolerance fee collection prohibition was also extended through fiscal year 2018 and part of fiscal year 2019. The third amendment to PRIA, the Pesticide Registration Improvement Extension Act of 2018 (PRIA 4), became effective March 8, 2019, and extended the prohibition on collection of tolerance petition fees through September 30, 2023. As a result, no additional tolerance petition fees were deposited to the FIFRA fund in FY 2019 and FY 2020.

The Pesticide Reregistration and Registration Review Programs

EPA is responsible for re-evaluating the safety of existing pesticides. Since the passage of FIFRA in 1947, scientific analysis techniques have grown much more precise and sophisticated and health and environmental standards have become more stringent. With the 1988 amendments to FIFRA (FIFRA '88), Congress mandated the accelerated reregistration of all products registered prior to November 1, 1984. The statute required completion of Reregistration Eligibility Decisions (REDs) and tolerance reassessment for all food-use active ingredients by 2006.

All REDs for the active ingredients have been completed, the last being completed in FY 2008. A RED is a decision by the Agency defining whether products containing the pesticide active ingredient are eligible or ineligible for reregistration. Following the issuance of the RED, the registrant must comply with the RED by submitting product-specific data and revised labels for each product containing that active ingredient or cancel the product registration. Based on its review of the data, if the product has met all the requirements, the EPA then reregisters the product.

The FQPA introduced a new program called Registration Review which replaced EPA's Pesticide

Reregistration and Tolerance Reassessment programs as those programs were completed. Unlike earlier review programs, Registration Review applies to all registered pesticides. EPA reviews each registered pesticide every 15 years to determine whether it still meets the FIFRA standard for registration. In this way, the Agency ensures that all registered pesticides do not pose unreasonable risks to human health or the environment when used as directed on product labeling.

FQPA also reauthorized collection of maintenance fees through 2001 to complete the review of older pesticides to ensure they meet current standards (increasing annual fees from \$14 million to \$16 million per year through 2000) and required all tolerances (over 9,700) to be reassessed by 2006. The 2002 appropriations bill extended maintenance fees to \$17 million for another year, and the 2003 appropriations extended them to \$21.5 million for that year. Passage of PRIA 1 in FY 2004 extended maintenance fees through FY 2008 (with annual fees totaling \$26 million in FY 2004; \$27 million in FY 2005-2006; \$21 million in FY 2007; and \$15 million in FY 2008). Passage of the Pesticide Registration Improvement Renewal Act (PRIA 2) in October 2007 extended maintenance fees through FY 2012 (\$22 million each FY). PRIA 2 provided for maintenance fees to offset the costs of registration review beginning in FY 2008.

For pesticides registered before October 1, 2007, EPA has a statutory mandate to complete Registration Review decisions by October 1, 2022; there is a total of 725 cases that need to have decisions by this date. For each case, the steps in this process include, in this order, opening dockets, developing work plans, completing risk assessments, and making decisions regarding any risk management measures. It is important to open dockets and develop work plans for as many cases as possible early in the process so that there is time to complete the risk assessments and make decisions by the 2022 deadline. In 2020 EPA continued completing risk assessments and making decisions to meet its statutory deadline by 2022.

Congress authorized the collection of maintenance fees from manufacturers to supplement appropriated funds to support reregistration and registration review programs. Maintenance fees were structured under PRIA 3 to generate approximately \$27.8 million per year for five years (FY'13 – FY'17). Maintenance fee collection authority at the \$27.8 million per year level was extended through fiscal year 2018 and part of fiscal year 2019 by legislative language contained in 2018 and 2019 continuing resolutions as well as the 2018 omnibus bill. Maintenance fees are assessed on a product-by-product basis with caps on the maximum number of products for which any single company would have to pay fees, as well as fee reductions for qualified small businesses. Registrations for minor use registrations and public health pesticides are also eligible for waivers and/or refunds of maintenance fees. Fees are deposited into the FIFRA Reregistration and Expedited Processing Fund. By statute, excess monies in the FIFRA Reregistration and Expedited Processing Fund may be invested. Between 11.1% and 12.5% of collected maintenance fees each year are used to support inert ingredient clearances as well as expedited processing of fast track amendments. PRIA 3 also had set aside approximately \$800,000 of the collected maintenance fees for fiscal years 2013 through 2017 to enhance specified IT systems.

PRIA 4 became effective March 8, 2019 and raised the maintenance fee annual collection target from \$27.8 million to \$31 million through fiscal year 2023. EPA had invoiced for FY 2019 maintenance fees in December 2019 under PRIA 3 authority and using the PRIA 3 collection target of \$27.8M. When PRIA 4 was enacted midway through the fiscal year, rather than reinvoice for the additional \$3.2M to achieve the increased annual target specified in PRIA 4, EPA utilized a provision in PRIA 4 which allows the EPA to average across fiscal years within PRIA 4 to account for over/under collection in a given fiscal year. For the remaining 4 years of PRIA 4 authority, EPA's collection target will be \$31.8M/year. While the fund can still be used for IT enhancements, PRIA 4 replaced the specific IT enhancement set-aside from PRIA 3 with two new maintenance fee set-asides of up to \$500K each annually through fiscal year 2023 for the efficacy

guideline development and rulemaking for invertebrate pests of significant public health or economic importance, and the Good Laboratory Practices (GLP) standards compliance monitoring program. PRIA 4 also removed an appropriations constraint on spending FIFRA maintenance fees.

Highlights and Accomplishments

Reregistration and Expedited Processing Fund (FIFRA) Financial Perspective

During FY 2020, the Agency's obligations charged against the Reregistration and Expedited Processing Revolving Fund for the cost of the reregistration, registration review and other FIFRA activities authorized by 7 U.S.C. 136(k)(2)(A) were \$41.6 million and 164.6 work-years. Of this amount, the EPA obligated approximately \$25 million for Personnel Compensation and Benefits (PC&B).

Appropriated funds are used in addition to pesticide user fees. In FY 2020, the total appropriations that funded registration review, reregistration and other FIFRA activities authorized by 7 U.S.C. 136(k)(2)(A) were approximately \$10 million.

The Fund has two types of receipts: fee collections and interest earned on investments. Of the \$31.85 million in FY 2020 receipts, more than 99.9% were fee collections. Total unobligated balance in the fund at the end of FY 2020 was \$42.2 million.

Registration Review Program (FIFRA) Performance Measures

The following measures support the program's strategic goal: ensuring the safety of chemicals and pollution prevention.

Measure 1: Number of FIFRA Decisions completed through pesticide registration review.

Results: EPA completed 98 registration review decisions for FY 2020, falling below the target of 110 decisions, and is on track for completing registration review for all pesticide cases by October 1, 2022.

Measure 2: Number of FIFRA registration review draft risk assessments completed.

Results: In FY 2019, EPA completed 100 draft risk assessments, exceeding the FY 2019 target of 80 draft risk assessments.

Principal Financial Statements

**U.S. Environmental Protection Agency
FIFRA
Balance Sheet
As of September 30, 2020 and 2019 (Restated)
(Dollars in Thousands)**

	2020	(Restated) 2019
ASSETS		
Intragovernmental:		
Fund Balance With Treasury (Note 2)	\$ 52,574	\$ 58,133
Other (Note 3)	50	27
Total Intragovernmental	52,624	58,160
Property, Plant and Equipment, Net (Note 5)	448	392
Total Assets	\$ 53,072	\$ 58,552
 LIABILITIES		
Intragovernmental:		
Accounts Payable and Accrued Liabilities (Note 4)	\$ 250	\$ 70
Other (Note 6)	197	160
Total Intragovernmental	447	230
With the Public:		
Accounts Payable and Accrued Liabilities (Note 4)	895	310
Payroll and Benefits Payable (Note 9 and 14)	5,352	4,199
Other (Note 6)	50,897	57,780
Total Liabilities	57,591	62,519
 NET POSITION		
Cumulative Results of Operations - Funds from Dedicated Collections (Restated) (Note 14)	(4,519)	(3,967)
Total Net Position	(4,519)	(3,967)
Total Liabilities and Net Position	\$ 53,072	\$ 58,552

The accompanying notes are an integral part of these financial statements.
EPA's FY 2020 Annual FIFRA Financial Statements

U.S. Environmental Protection Agency
FIFRA
Statement of Net Cost
For the Fiscal Years Ended September 30, 2020 and 2019 (Restated)
(Dollars in Thousands)

	2020	(Restated)	2019
COSTS			
Gross Costs (Note 12 and 14)	\$ 41,122	\$	20,312
Expenses from Other Appropriations (Note 10)	48,960	\$	53,689
Total Costs	90,082		74,001
Less:			
Earned Revenue (Note 12)	38,855	\$	19,346
NET COST OF OPERATIONS (Note 13 and 14)	\$ 51,227	\$	54,655

The accompanying notes are an integral part of these financial statements.
 EPA's FY 2020 Annual FIFRA Financial Statements

5.

U.S. Environmental Protection Agency
FIFRA
Statement of Changes in Net Position
For the Fiscal Years Ended September 30, 2020 and 2019 (Restated)
(Dollars in Thousands)

	2020	(Restated) 2019
Cumulative Results of Operations:		
Net Position - Beginning of Period	\$ (3,967)	\$ (3,411)
Adjustment:		
(a) Changes in Accounting Principles	-	-
(b) Corrections of Errors (Note 14)	-	(1,075)
Beginning Balance, as Adjusted	(3,967)	(4,486)
Budgetary Financing Sources:		
Nonexchange Revenue - Securities Investment	457	968
Income from Other Appropriations (Note 10)	48,960	53,689
Total Budgetary Financing Sources	49,417	54,657
Other Financing Sources (Non-Exchange)		
Imputed Financing Sources	1,258	517
Total Other Financing Sources	1,258	517
Net Cost of Operations	\$ (51,227)	\$ (54,655)
Net Change	(552)	519
Cumulative Results of Operations	\$ (4,519)	\$ (3,967)
Unexpended Appropriations:		
Net Position - Beginning of Period	\$ -	\$ (1,075)
Adjustment:		
(a) Changes in Accounting Principles	-	-
(b) Corrections of Errors (Note 14)	-	1,075
Beginning Balance, as Adjusted	-	-
TOTAL NET POSITION	\$ (4,519)	\$ (3,967)

The accompanying notes are an integral part of these financial statements.
EPA's FY 2020 Annual FIFRA Financial Statements

U.S. Environmental Protection Agency
FIFRA
Statement of Budgetary Resources
For the Fiscal Years Ended September 30, 2020 and 2019
(Dollars in Thousands)

	<u>2020</u>	<u>2019</u>
BUDGETARY RESOURCES		
Unobligated Balance From Prior Year Budget Authority, Net (mandatory)	\$ 51,421	\$ 45,704
Spending Authority (mandatory)	<u>32,176</u>	<u>27,749</u>
Total Budgetary Resources	<u>\$ 83,597</u>	<u>\$ 73,453</u>
STATUS OF BUDGETARY RESOURCES		
New Obligations and Upward adjustments (total)	\$ 41,364	\$ 22,398
Unobligated Balance, End of Year:		
Apportioned, Unexpired Accounts	39,886	50,141
Unapportioned, Unexpired Accounts	<u>2,347</u>	<u>914</u>
Unobligated Balance, End of Year (total): (Note 7)	<u>42,233</u>	<u>51,055</u>
Total Status of Budgetary Resources	<u>\$ 83,597</u>	<u>\$ 73,453</u>
OUTLAYS, NET		
Outlays, Net (total) (mandatory)	\$ 5,810	\$ (9,300)
Distributed Offsetting Receipts (-)	<u>-</u>	<u>-</u>
Agency Outlays, Net (mandatory)	<u>\$ 5,810</u>	<u>\$ (9,300)</u>

The accompanying notes are an integral part of these financial statements.
EPA's FY 2020 Annual FIFRA Financial Statements

7.

U.S. Environmental Protection Agency
FIFRA
Notes to the Financial Statements
For the Fiscal Years Ended September 30, 2020 and 2019 (Restated)
(Dollars in Thousands)

Note 1. Summary of Significant Accounting Policies

A. Reporting Entities

The EPA was created in 1970 by executive reorganization from various components of other federal agencies to better marshal and coordinate federal pollution control efforts. The Agency is generally organized around the media and substances it regulates - air, water, land, hazardous waste, pesticides, and toxic substances.

The FIFRA Revolving Fund was authorized in 1988 by amendments to the Federal Insecticide, Fungicide and Rodenticide Act (FIFRA). The 1988 amendments mandated the accelerated re-registration of all products registered prior to November 1, 1984. Congress authorized the collection of maintenance fees to supplement appropriations to fund re-registration and to fund expedited processing of pesticides.

Maintenance fees are assessed on registrants of pesticide products. FIFRA also includes provisions for the registration of new pesticides (funded in part from the PRA or Pesticide Registration Fund), monitoring the distribution and use of pesticides, issuing civil or criminal penalties for violations, establishing cooperative agreements with the states, and certifying training programs for users of restricted chemicals. Appropriated funds, with the exception of partial funding of registration from Pesticide Registration Service Fees in the Pesticide Registration Fund, pay for these activities. The FIFRA Revolving Fund is accounted for under Treasury symbol number 68X4310.

The FIFRA fund may charge some administrative costs directly to the fund and charge the remainder of the administrative costs to Agency-wide appropriations. See Note 10 Income and Expenses from Other Appropriations for amounts included in Income from Other Appropriations on the Statement of Changes in Net Position and as Expenses from Other Appropriations on the Statement of Net Cost.

B. Basis of Presentation

These financial statements have been prepared to report the financial position and results of operations of the EPA for the Reregistration and Expedited Processing (FIFRA) Revolving Fund as required by the Chief Financial Officers Act of 1990. The reports have been prepared from the books and records of 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 2020 and FY 2019 cost factors for calculating imputed costs for Federal civilian benefits programs, respectively. These updates impact the Balance Sheet, Statement of Net Cost, and Statement of Changes in Net Position.

C. Budgets and Budgetary Accounting

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

U.S. Environmental Protection Agency
FIFRA
Notes to the Financial Statements
For the Fiscal Years Ended September 30, 2020 and 2019 (Restated)
(Dollars in Thousands)

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 and the American Institute of Certified Public Accountants (AICPA). 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 liabilities are incurred, without regard to receipt or payment of cash. Budgetary accounting facilitates compliance with legal constraints and controls over the use of federal funds posted in accordance with OMB directives and the U.S. Treasury regulations.

E. Revenues and Other Financing Sources

The EPA's 2002 appropriations bill extended authority to collect maintenance fees by one year in the amount of \$17 million and the FY 2003 appropriations extended the authority to collect fees again by one year in the amount of \$21.5 million. Passage of the Pesticide Registration Improvement Act (PRIA) in 2004 extended the authority to collect maintenance fees through FY 2008 (with annual fee amounts at \$26 million in FY 2004; \$27 million in FY 2005-2006; \$21 million in FY 2007; and \$15 million in FY 2008). Passage of the Pesticide Registration Improvement Renewal Act (commonly referred to as PRIA II) in 2007 extended the authority to collect maintenance fees through FY 2012 (with annual fee amounts set at \$22 million each year from 2008-2012). For FYs 2020 and 2019, the FIFRA Revolving Fund received funding from maintenance fees collected on existing registered pesticide products and from interest collected on investments in U.S. Government securities. For FYs 2020 and 2019, revenues were recognized from fee collections to the extent that expenses are incurred during the fiscal year.

F. Funds with the Treasury

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

G. 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. FIFRA holds the investments to maturity, unless needed to finance operations of the fund. No provision is made for unrealized gains or losses on these securities because, in the majority of cases, they are held to maturity.

H. Property, Plant, and Equipment

General property, plant and equipment for FIFRA includes 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, reviewed capitalization threshold from \$250 thousand to \$5 million to better align with major software acquisition investments. The

U.S. Environmental Protection Agency
FIFRA
Notes to the Financial Statements
For the Fiscal Years Ended September 30, 2020 and 2019 (Restated)
(Dollars in Thousands)

\$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. Accounts Receivable and Interest Receivable

FIFRA receivables are mainly for interest receivable on investments.

J. Liabilities

Liabilities represent the amount of monies or other resources that are more likely than not 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 FIFRA, liabilities are liquidated from fee receipts and interest earnings, since FIFRA receives no appropriation. Fees collected by the Agency are classified as unearned revenue until expended (see Note 6). Liabilities of the Agency, arising from other than contracts can be abrogated by the Government acting in its sovereign capacity.

K. 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. It is expensed as it is used. Annual leave earned but not taken at the end of the fiscal year is accrued as an unfunded liability. Accrued unfunded annual leave is included in the Balance Sheet as a component of "Payroll and Benefits Payable."

L. Retirement Plan

There are two primary retirement systems for federal employees. Employees hired prior to January 1, 1987, may participate in the Civil Service Retirement System (CSRS). On January 1, 1987, the Federal Employees Retirement System (FERS) went into effect pursuant to Public Law 99-335. Most employees hired after December 31, 1986, are automatically covered by FERS and Social Security. Employees hired prior to January 1, 1987, 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.

U.S. Environmental Protection Agency
 FIFRA
 Notes to the Financial Statements
 For the Fiscal Years Ended September 30, 2020 and 2019 (Restated)
 (Dollars in Thousands)

M. 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.

N. Use of Estimates

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

O. Reclassifications and Comparative Figures

Certain reclassifications have been made to the prior year's financial statements to enhance comparability with the current year's financial statements in accordance with Office of Management and Budget (OMB) Circular No. A-136, *Financial Reporting Requirements* revised August 27, 2020. As a result, the presentation for General Property, Plant and Equipment note is for the current year only.

Note 2. Fund Balance With Treasury (FBWT)

Fund Balance with Treasury as of September 30, 2020 and 2019 consists of the following:

	2020			2019		
	Entity Assets	Non-Entity Assets	Total	Entity Assets	Non-Entity Assets	Total
Revolving Funds:						
FIFRA	\$ 52,574	\$ -	\$ 52,574	\$ 58,133	\$ -	\$ 58,133
Total	\$ 52,574	\$ -	\$ 52,574	\$ 58,133	\$ -	\$ 58,133

	2020	2019
Status of Fund Balances:		
Unobligated Amounts in Fund Balance:		
Available for Obligation	\$ 42,233	\$ 51,055
Obligated Balance not yet Disbursed	10,341	7,078
Total	\$ 52,574	\$ 58,133

U.S. Environmental Protection Agency
 FIFRA
 Notes to the Financial Statements
 For the Fiscal Years Ended September 30, 2020 and 2019 (Restated)
 (Dollars in Thousands)

Note 3. Other Assets

Other Assets as of September 30, 2020 and 2019 consist of the following:

	2020	2019
Intragovernmental:		
Advances to Federal Agencies	\$ 50	\$ 27
Total	\$ 50	\$ 27

FIFRA advances funds to the EPA's Working Capital Fund to pay for computer, postage, and other administrative support services.

Note 4. Accounts Payable and Accrued Liabilities (Restated)

The Accounts Payable and Accrued Liabilities are current liabilities and consist of the following amounts as of September 30, 2020 and 2019:

	2020	2019
Intragovernmental:		
Accrued Liabilities	\$ 250	\$ 70
Total	\$ 250	\$ 70
 Non-Federal:		
Accounts Payable	\$ 128	\$ 55
Other Accrued Liabilities	767	255
Total	\$ 895	\$ 310

U.S. Environmental Protection Agency
 FIFRA
 Notes to the Financial Statements
 For the Fiscal Years Ended September 30, 2020 and 2019 (Restated)
 (Dollars in Thousands)

Note 5. General Property, Plant and Equipment, Net

General property, plant, and equipment (PP&E) consist of software, real property, EPA-held and contractor-held personal property, and capital leases.

As of September 30, 2020, General PP&E Cost consisted of the following:

	EPA- Held <u>Equipment</u>	Software <u>(production)</u>	<u>Total</u>
Balance, Beginning of Year	\$ 489	\$ 330	\$ 819
Additions	<u>111</u>	<u>-</u>	<u>111</u>
Balance, End of Year	<u>\$ 600</u>	<u>\$ 330</u>	<u>\$ 930</u>

As of September 30, 2020, General PP&E Accumulated Depreciation consisted of the following:

	EPA- Held <u>Equipment</u>	Software <u>(production)</u>	<u>Total</u>
Balance, Beginning of Year	\$ 125	\$ 302	\$ 427
Depreciation Expense	<u>34</u>	<u>21</u>	<u>55</u>
Balance, End of Year	<u>\$ 159</u>	<u>\$ 323</u>	<u>\$ 482</u>

As of September 30, 2020, General PP&E, Net consisted of the following:

	EPA- Held <u>Equipment</u>	Software <u>(production)</u>	<u>Total</u>
Balance, End of Year, Net	<u>\$ 441</u>	<u>\$ 7</u>	<u>\$ 448</u>

U.S. Environmental Protection Agency
 FIFRA
 Notes to the Financial Statements
 For the Fiscal Years Ended September 30, 2020 and 2019 (Restated)
 (Dollars in Thousands)

Note 6. Other Liabilities

Other Liabilities consist of the following as of September 30, 2020:

	<u>Covered by Budgetary Resources</u>	<u>Not Covered by Budgetary Resources</u>	<u>Total</u>
Current			
Employer Contributions & Payroll Taxes	\$ 197	\$ -	\$ 197
Total Intragovernmental	<u>\$ 197</u>	<u>\$ -</u>	<u>\$ 197</u>
Other Liabilities - Non-Federal			
Current			
Unearned Advances from Fee Collections*, Non-Federal	\$ 50,897	\$ -	\$ 50,897
Total Non-Federal	<u>\$ 50,897</u>	<u>\$ -</u>	<u>\$ 50,897</u>

Other Liabilities consist of the following as of September 30, 2019:

	<u>Covered by Budgetary Resources</u>	<u>Not Covered by Budgetary Resources</u>	<u>Total</u>
Current			
Employer Contributions & Payroll Taxes	\$ 160	\$ -	\$ 160
Total Intragovernmental	<u>\$ 160</u>	<u>\$ -</u>	<u>\$ 160</u>
Other Liabilities - Non-Federal			
Current			
Unearned Advances from Fee Collections*, Non-Federal	\$ 57,780	\$ -	\$ 57,780
Total Non-Federal	<u>\$ 57,780</u>	<u>\$ -</u>	<u>\$ 57,780</u>

*Fees collected by the FIFRA 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 10).

U.S. Environmental Protection Agency
FIFRA
Notes to the Financial Statements
For the Fiscal Years Ended September 30, 2020 and 2019 (Restated)
(Dollars in Thousands)

Note 7. Unobligated Balances Available

Unobligated balances are a combination of three lines on the Statement of Budgetary Resources: Apportioned, Unexpired Accounts; Unapportioned, Unexpired Accounts; and Expired Unobligated Balances, End of Year. Unexpired unobligated balances are available to be apportioned by the OMB for new obligations at the beginning of the following fiscal year. The expired unobligated balances are only available for upward adjustments of existing obligations.

The unobligated balances available consist of the following as of September 30, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Unexpired Unobligated Balance	\$ 42,233	\$ 51,055
Expired Unobligated Balance	-	-
Total	\$ <u>42,233</u>	\$ <u>51,055</u>

Note 8. Undelivered Orders at the End of the Period

Budgetary resources obligated for undelivered orders at September 30, 2020 and 2019, was \$6,292 and \$3,862 respectively.

Note 9. Payroll and Benefits Payable (Restated)

Payroll and benefits payable to the EPA employees for the years September 30, 2020 and 2019 (Restated) consist of the following:

	<u>Covered by Budgetary Resources</u>	<u>Not Covered by Budgetary Resources</u>	<u>Total</u>
FY 2020 Payroll and Benefits Payable			
Accrued Funded Payroll and Benefits	\$ 911	\$ -	\$ 911
Employer Contributions Payable - Thrift Savings Plan	99	-	99
Total - Current	1,010	-	1,010
Accrued Unfunded Annual Leave	-	4,342	4,342
Total - Non Current	-	4,342	4,342
Total	\$ <u>1,010</u>	\$ <u>4,342</u>	\$ <u>5,352</u>

U.S. Environmental Protection Agency
FIFRA
Notes to the Financial Statements
For the Fiscal Years Ended September 30, 2020 and 2019 (Restated)
(Dollars in Thousands)

	<u>Covered by Budgetary Resources</u>	<u>Not Covered by Budgetary Resources</u>	<u>Total</u>
FY 2019 Payroll and Benefits Payable			
Accrued Funded Payroll and Benefits	\$ 806	\$ -	\$ 806
Employer Contributions Payable - Thrift Savings Plan	<u>104</u>	<u>-</u>	<u>104</u>
Total - Current	910	-	910
Accrued Unfunded Annual Leave (Restated)	<u>-</u>	<u>3,289</u>	<u>3,289</u>
Total - Non Current	-	3,289	3,289
Total	<u>\$ 910</u>	<u>\$ 3,289</u>	<u>\$ 4,199</u>

At various periods throughout FY 2020 and FY 2019 employees with their associated payroll costs were transferred from FIFRA to the Environmental Programs and Management (EPM) appropriation. These employees were transferred to keep FIFRA's obligations and disbursements within budgetary limits. When resources become available, the employee charging to FIFRA increased to utilize resources as much as possible.

This process has led to variations between the year-end liabilities of FYs 2020 and 2019. The liabilities covered by budgetary resources (both intragovernmental and non-Federal) represent unpaid payroll and benefits at year-end. As of September 30, 2020, the liabilities were \$197 thousand and \$1,010 thousand for employer contributions and accrued funded payroll and benefits as compared to FY 2019's balances of \$160 thousand and \$910 thousand, respectively.

In contrast, the unfunded annual leave liability is a longer term liability than the funded liabilities.

Note 10. Income and Expenses from Other Appropriations

The Statement of Net Cost reports the program costs that include the full cost 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 2020 and 2019, 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.

As illustrated below there is no impact on EPA's Statement of Changes in Net Position.

	<u>2020</u>	<u>2019</u>
Income from Other Appropriations	\$ 48,960	\$ 53,689
Expenses from Other Appropriations	<u>48,960</u>	<u>53,689</u>
Net Effect	<u>\$ -</u>	<u>\$ -</u>

U.S. Environmental Protection Agency
 FIFRA
 Notes to the Financial Statements
 For the Fiscal Years Ended September 30, 2020 and 2019 (Restated)
 (Dollars in Thousands)

Note 11. Exchange Revenues, Statement of Net Cost

For FYs 2020 and 2019, the exchange revenues reported on the Statement of Net Cost is comprised of non-Federal amounts.

Note 12. Intragovernmental Costs and Exchange Revenue (Restated)

	2020	(Restated) 2019
Costs:		
Intragovernmental	\$ 11,210	\$ 5,290
With the Public (Restated)	29,912	15,022
Expenses from Other Appropriations	48,960	53,689
Total Costs	\$ 90,082	\$ 74,001
Revenue:		
With the Public	38,855	19,346
Total Revenue	38,855	19,346
Net Cost of Operations:	\$ 51,227	\$ 54,655

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

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FIFRA
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(Dollars in Thousands)

Note 13. Reconciliation of Net Cost of Operations to Budget (Restated)

For the Fiscal Year 2020:

	<u>Intra- governmental</u>	<u>With the Public</u>	<u>Total 2020</u>
NET COST	\$ 10,156	\$ 41,071	\$ 51,227
Components of Net Cost That Are Not Part of Net Outlays:			
Property, Plant and Equipment Depreciation	-	(54)	(54)
Other	-	(48,849)	(48,849)
Increase/(Decrease) in Assets:			
Other Assets	23	-	23
(Increase)/Decrease in Liabilities:			
Accounts Payable and Accrued Liabilities	(180)	(585)	(765)
Payroll and Benefits Payable	-	(1,153)	(1,153)
Other Liabilities	(37)	6,883	6,846
Other Financing Sources:			
Federal Employee Retirement Benefit Costs Paid by OPM and Imputed to the Agency	(1,199)	-	(1,199)
Other Imputed Financing	<u>(59)</u>	<u>-</u>	<u>(59)</u>
Total Components of Net Cost That Are Not Part of Net Outlays	8,704	(2,687)	6,017
Other Temporary Timing Differences	-	(207)	(207)
NET OUTLAYS	\$ <u>8,704</u>	\$ <u>(2,894)</u>	\$ <u>5,810</u>

U.S. Environmental Protection Agency
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Notes to the Financial Statements
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For the Fiscal Year 2019:

	Intra- governmental	With the Public	Total 2019
NET COST (Restated)	\$ 5,290	\$ 49,365	\$ 54,655
Components of Net Cost That Are Not Part of Net Outlays:			
Property, Plant and Equipment Depreciation	-	(54)	(54)
Other	-	(53,689)	(53,689)
Increase/(Decrease) in Assets:			
Other Assets	(121)	-	(121)
(Increase)/Decrease in Liabilities:			
Accounts Payable and Accrued Liabilities	(13)	160	147
Payroll and Benefits Payable (Restated)	-	(1,152)	(1,152)
Other Liabilities	(159)	(8,411)	(8,570)
Other Financing Sources:			
Transfer Out (In) Without Reimbursement	517	-	517
Total Components of Net Cost That Are Not Part of Net Outlays	5,514	(13,781)	(8,267)
Other Temporary Timing Differences	-	(1,033)	(1,033)
NET OUTLAYS	\$ 5,514	\$ (14,814)	\$ (9,300)

Budgetary and financial accounting information differ. Budgetary accounting is used for planning and control purposes and relates to both the receipt and use of cash, as well as reporting the federal deficit. Financial accounting is intended to provide a picture of the government's financial operations and financial position, so it presents information on an accrual basis. The accrual basis includes information about costs arising from the consumption of assets and the incurrence of liabilities. The reconciliation of net outlays, presented on a budgetary basis, and the net cost, presented on an accrual basis, provides an explanation of the relationship between budgetary and financial accounting information.

The reconciliation serves not only to identify costs paid for in the past and those that will be paid in the future, but also to assure integrity between budgetary and financial accounting. The reconciliation explains the relationship between the net cost of operations and net outlays by presenting components of net cost that are not part of net outlays (e.g. depreciation and amortization expenses of assets previously capitalized, change in asset/liabilities), components of net outlays that are not part of net cost (e.g. acquisition of capital assets), other temporary timing difference (e.g. prior period adjustments due to correction of errors). The analysis below illustrates this reconciliation by listing the key differences between net cost and net outlays.

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Note 14. Restatements

Unexpended Appropriations

During FY2020, EPA determined that reporting Unexpended Appropriations for FIFRA was in error. As a result of these corrections, the agency restated FY 2019 financial statements. The changes impacted the FY 2019 Balance Sheet Net Position and Statement of Changes in Net Position.

Unfunded Leave Accrual

EPA determined that the FY 2018 unfunded leave accrual was not reversed for the FY 2019 FIFRA Financial Statements. As a result, EPA has restated its 2019 balances to reflect the corrected unfunded leave amounts. The changes impact the FY 2019 Payroll and Benefits Payable on the Balance Sheet, Cumulative Results of Operations, Funds from Dedicated Collections on the Balance Sheet, Gross Costs on the Statement of Net Cost, and Net Cost of Operations on the Statement of Changes in Net Position.

Agency Response to Draft Report



UNITED STATES ENVIRONMENTAL PROTECTION AGENCY

WASHINGTON, D.C. 20460

December 1, 2021

OFFICE OF THE
CHIEF FINANCIAL OFFICER

MEMORANDUM

SUBJECT: Response to the Office of Inspector General Draft Report, Project No. OA-FY21-0082, “EPA’s Fiscal Years 2020 and 2019 (Restated) Financial Statements for the Pesticides Reregistration and Expedited Processing Fund,” dated November 1, 2021

FROM: Faisal Amin, Chief Financial Officer Amin,
Office of the Chief Financial Officer Faisal

Digitally signed by
Amin, Faisal
Date: 2021.12.01
10:45:34 -05'00'

TO: Paul C. Curtis, Director
Financial Directorate
Office of Audit

Thank you for the opportunity to respond to the issues and recommendations in the subject draft report. The following is a summary of the U.S. Environmental Protection Agency’s overall position along with its position on the report’s recommendations.

AGENCY RESPONSE TO DRAFT REPORT RECOMMENDATIONS

No.	Recommendation	High-Level Corrective Action(s)	Estimated Completion Date
1	Correct the calculation in the Federal Insecticide, Fungicide, and Rodenticide Act 20-03 on-top adjustment to accurately capture the amounts for footnote 10, “Income and Expenses from Other Appropriations.”	Concur. The calculation will be corrected and the correct amounts will be included in the final financial statements.	December 2, 2021
2	Document the control activities and procedures for calculating the income and expense amounts for footnote 10, “Income and Expenses from Other Appropriations.”	Concur. The documented processes and procedures for completing the calculation will be updated to include instructions for capturing all applicable expenses in the calculation along with additional staff and management review.	December 2, 2021

3	Develop a plan to strengthen and improve the preparation and management review of the Federal Insecticide, Fungicide, and Rodenticide Act Fund financial statements and adjustments entered the accounting system so that errors and misstatements are detected and corrected in a timely manner.	<p>Concur. The EPA continues to strengthen and improve its financial statement preparation process and has made significant progress to date. The following corrective actions have been completed or are in progress:</p> <ul style="list-style-type: none"> • Implemented new procedures requiring a second-level management review of journal vouchers over \$10 million and all on-top adjustments. <i>(Completed November 2020)</i> • Implemented CaseWare financial statement preparation software, which increases efficiency and provides additional format controls and footnote cross checks that were unavailable previously. <i>(Completed March 2020)</i> • Performed an A-123 review of the financial statement preparation process. <i>(Completed June 2021)</i> • Perform monthly internal reviews of journal vouchers to ensure they are clearly and sufficiently supported, in addition to quarterly contractor reviews. <i>(On-going)</i> • Enhanced the standard operating procedures and reviewer checklists for financial statement preparation. <i>(On-going)</i> • Developed a plan for the financial statement preparation process including new comprehensive review by an Office of Controller-wide team of accountants. <i>(On-going)</i> <p>Established an accounting training program for all OC staff to understand better policy and procedures involved in the financial statement process. <i>(On-going)</i></p>	December 31, 2021
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CONTACT INFORMATION

If you have any questions regarding this response, please contact the OCFO’s Audit Follow-up Coordinator, Andrew LeBlanc, at leblanc.andrew@epa.gov or (202) 564-1761.

cc: Michal Freedhoff
David Bloom

Carol Terris
Lek Kadeli
Jeanne Conklin
Charles Sheehan
Edward Shields
Katherine Trimble
Meshall Jones-Peeler
Richard Gray
Laura Nicolosi
James Hatfield
Damon Jackson
OCFO-OC-MANAGERS
Demetrios Papakonstantinou
Andrew LeBlanc
José Kercado
Janet Weiner

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 Associate Assistant Administrator for Chemical Safety and Pollution Prevention
 Special Assistant, Office of Chemical Safety and Pollution Prevention
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 Deputy Director, Office of Technology Solutions, Office of the Chief Financial Officer
 Director, Accounting and Cost Analysis Division, Office of the Controller
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 Audit Liaison, Office of the Controller
 Audit Liaison, Office of Technology Solutions, Office of the Chief Financial Officer
 Audit Liaison, Office of Pesticide Programs, Office of Chemical Safety and Pollution Prevention

Audit Liaison, Office of Pollution Prevention and Toxics, Office of Chemical Safety and Pollution Prevention

Backup Audit Follow-Up Coordinator, Office of the Chief Financial Officer

Audit Follow-Up Coordinators, Regions 1–10