



OFFICE OF INSPECTOR GENERAL U.S. ENVIRONMENTAL PROTECTION AGENCY

CUSTOMER SERVICE ★ INTEGRITY ★ ACCOUNTABILITY

Operating efficiently and effectively

EPA's Fiscal Years 2020 and 2019 Financial Statements for the Pesticide Registration Fund

Report No. 22-F-0014

December 21, 2021



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Abbreviations:

EPA	U.S. Environmental Protection Agency
OIG	Office of Inspector General
PRIA	Pesticide Registration Improvement Act
U.S.C.	United States Code

Cover Image: Truck mounted with pesticide sprayers. (EPA photo)

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Office of Inspector General U.S. Environmental Protection Agency **At a Glance**

22-F-0014
December 21, 2021

Why We Did This Audit

The Pesticide Registration Improvement Act requires that the U.S. Environmental Protection Agency's Office of Inspector General perform an annual audit of the financial statements for the Pesticide Registration Fund.

To expedite the registration of certain pesticides, the Pesticide Improvement Act requires the EPA to assess and collect pesticide registration fees. The fees collected are deposited into the Pesticide Registration Fund. The Agency is required to prepare financial statements that present financial information about the fund. The Pesticide Registration Fund also requires that decision-time review periods be established for pesticide registration actions and that the OIG perform an analysis of the Agency's compliance with those review periods.

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 Financial Statements for the Pesticide Registration Fund

EPA Receives an Unmodified Opinion for Fiscal Years 2020 and 2019

We rendered an unmodified opinion on the EPA's fiscal years 2020 and 2019 Pesticide Registration Fund, also known as the PRIA 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 PRIA income and expenses from other appropriations.

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

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

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 review periods.

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 PRIA Fund financial statements.

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 recommendation and indicated that it has 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. The Agency's estimated completion date for corrective actions is December 31, 2021.



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 Financial Statements for the Pesticide
Registration Fund
Report No. 22-F-0014

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 printed name of the Director.

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-FY21-0081](#). 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 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 U.S. Environmental Protection Agency's Pesticide Registration Fund, also known as the Pesticide Registration Improvement Act, or PRIA, Fund. These statements comprise the balance sheets as of September 30, 2020, and September 30, 2019; the 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 PRIA Fund as of and for the years ending September 30, 2020 and 2019, in accordance with accounting principles generally accepted in the United States of America.

Report on Internal Control over Financial Reporting

Opinion on Internal Control. In planning and performing our audit of the financial statements of the PRIA 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 the 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 the PRIA Income and Expenses from Other Appropriations

The EPA materially misstated the on-top adjustment involving the PRIA fund income and expenses from other appropriations by over \$5.4 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 in 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.

Significant Deficiency

EPA Needs to Improve Its Financial Statement Preparation Process

The EPA's Office of Inspector General identified the same issue in the PRIA Fund financial statements for 2020 that it did in 2019. We found that the EPA continues to make misstatements and adjustment errors as described in Attachment 2 when preparing PRIA Fund financial statements. Section II.3.1 of Office of Management and Budget Circular A-136, *Financial Reporting Requirements*, requires that entities prepare information in financial statements in accordance with generally accepted accounting principles. If the EPA does not properly record financial adjustments and exercise due diligence in the preparation and management review of the 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.

Attachment 3 contains the status of issues reported in prior years' reports on the fund's financial statements. The issue included in Attachment 3 should be considered among the significant deficiency for fiscal year 2020. We reported more significant internal control matters to the Agency during the course of the audit. We will not issue a separate management letter.

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 OIG 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 PRIA Fund is a component. Accordingly, there are no findings to report at the PRIA 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

Decision-Time Review

The OIG is required to audit the Agency's PRIA Fund financial statements with respect to the decision-time review periods. Based on our audit, we found that the decision-time review was in substantial compliance with the PRIA 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 PRIA Fund's financial statements—OIG Report No. [20-F-0328](#), *Fiscal Years 2019 and 2018 Financial Statements for the Pesticide Registration Fund*, issued September 23, 2020—we reported an internal control weakness with the financial statement preparation. In fiscal year 2019, we found multiple instances where the Agency had misstatements of its adjustments and financial statements.

We recommended that the Agency improve the management review of financial statements prior to providing them to us so that we receive timely and accurate financial statements, as well as accurate and reliable supporting documentation for adjustments and corrections to the financial statements. The Agency agreed with our recommendation and completed corrective actions in December 2020.

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 has an estimated completion date of December 31, 2021.

A handwritten signature in black ink, appearing to read "Paul C. Curtis". The signature is fluid and cursive, with a prominent initial "P" and a stylized "C" at the end.

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 PRIA Income and Expenses from Other Appropriations

The EPA materially misstated the on-top adjustment involving the PRIA fund income and expenses from other appropriations by over \$5.4 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 in 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 this topic. 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 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 PRIA income and expenses from other appropriations in its fiscal year 2020 draft financial statements by over \$5.4 million. Specifically, EPA personnel did not accurately capture certain amounts that should have been part of the calculation for the on-top adjustment and, therefore, misstated the net cost; net position changes; and footnote 10, "Income and Expenses from Other Appropriations," in the PRIA Fund's draft financial statements. The EPA informed us that there were amounts in "Expenses Without PRIA 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 adjustment for the final financial statements.

If the EPA does not exercise due diligence in 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.

Recommendations

We recommend that the chief financial officer:

1. Correct the calculation in the Pesticide Registration Improvement Act 20-04 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 that 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 identified the same issue in the PRIA Fund financial statements for 2020 that we did in 2019. We found that the EPA continues to make misstatements and adjustment errors when preparing PRIA Fund financial statements. Section II.3.1 of Office of Management and Budget Circular A-136, *Financial Reporting Requirements*, requires that entities prepare information in financial statements in accordance with generally accepted accounting principles. If the EPA does not properly record financial adjustments and exercise due diligence in the preparation and management review of the 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*. In addition, 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 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.

During its financial statement preparation process, the EPA did not detect and correct multiple misstatements and adjustment errors before it entered the data into the EPA's accounting system and statements. If the EPA does not properly record financial adjustments or exercise due diligence when preparing financial statements, it could compromise the accuracy of the financial statements and the reliance of the public and other interested 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 and accurate and timely recording of transactions and events. 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 five components of internal control in government as described in the Green Book are listed in Attachment 1.

We found multiple instances in which the Agency had misstatements of its adjustments and in its financial statements. Specifically, we found that the Agency misreported the reconciliation of "Net Cost of Operations to Net Outlays" footnote and materially miscalculated the income and expenses from other appropriations for PRIA. We found the following:

- *Reconciliation of "Net Cost of Operations to Net Outlays" Footnote (Note 12)*. During our analysis of the reconciliation of the "Net Cost of Operations to Net Outlays" footnote, we found that EPA personnel misrepresented the "With the Public" amount by \$410,948.23. The EPA did not deduct an amount (cost capitalization offsets) and instead added it to the amount that was reported in the footnote. This was a change from 2019 reporting in which the EPA correctly

subtracted the cost capitalization offset to calculate the component amount. The EPA has stated that it will correct this error for the final financial statements.

- *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 changes in net position in the PRIA Fund 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.

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

If the EPA does not properly record financial adjustments and exercise due diligence in the preparation and management review of the 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 Pesticide Registration Improvement 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 is in Appendix B.

Status of Prior Audit Report Recommendations

We identified a material weakness in our financial statement audits that remain outstanding (Table 3-1).

Table 3-1: Material weakness issue not fully resolved or implemented

EPA Needs to Improve Its Financial Statement Preparation Process
During our fiscal year 2019 audit, we found multiple instances where the EPA had misstated its adjustments and financial statements. Based on our finding, we recommended that the chief financial officer improve the management review of financial statements prior to providing them to us so that timely and accurate financial statements are provided and to provide accurate and reliable supporting documentation for adjustments and corrections to the financial statements. According to the EPA, corrective actions were completed on December 31, 2020. During our fiscal year 2020 audit, we identified the same issues as the fiscal year 2019 audit. Therefore, we do not consider the corrective actions complete.

Source: OIG analysis of prior year recommendations and the Agency's corrective actions. (EPA OIG table)

Status of Recommendations

RECOMMENDATIONS

Rec. No.	Page No.	Subject	Status ¹	Action Official	Planned Completion Date
1	8	Correct the calculation in the Pesticide Registration Improvement Act 20-04 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 Pesticide Registration Improvement 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 Pesticide
Registration Fund Financial Statements***

**Fiscal Years 2020 and 2019
Pesticide Registration 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.

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 Pesticide 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 of 2012 (PRIA 3) was effective on October 1, 2012, authorized collection of registration fees through FY 2017. The PRIA 3 statutory expiration date of September 30, 2017, 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 spending bill. Effective March 8, 2019, the Pesticide Registration Improvement Extension Act of 2018 (PRIA 4) reauthorized PRIA for five years, through fiscal year 2023.

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 4, the waiver has been granted and the remaining fee has been paid. PRIA 4 legislation provides fee waivers for certain categories of small businesses and minor uses¹. Exemption from the requirement to pay a registration service fee is continued under PRIA 4 for applications solely associated with IR-4 petitions².

¹ 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.

²The 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.

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 applications received on or after October 1, 2012 through March 7, 2019 are covered by PRIA 3. Effective March 8, 2019, the Pesticide Registration Improvement Extension Act of 2018 (PRIA 4) reauthorized PRIA for five years, through fiscal year 2023. PRIA 4 contains the same audit provision as PRIA 3. PRIA 4 continues authority established under PRIA 3 to reject an application if it fails a preliminary technical screen. PRIA 4 also increases the fee categories or types of applications covered by PRIA from 189 to 212 and continues PRIA 3 set-asides for farm worker protection activities, partnership grants and pesticide safety education programs.

Starting February 16, 2019, and for the duration of time up until March 8, 2019, EPA operated under the phase out provisions under FIFRA section 33(m)(2)(B) and (D)(ii), in which pesticide registration service fees for applications received during that time frame were reduced by 70% and those applications did not receive a statutory decision review time period. On March 8, 2019, the Pesticide Registration Improvement Extension Act of 2018 or PRIA 4, was signed into law and became effective. Additionally, PRIA 4 modified fees for existing categories, created new fee categories, and in a few cases, amended the category definitions.

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 2019 & FY 2020 included 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 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 2020, the Agency's obligations charged against the PRIA Fund for the cost of registration were \$18.2 million and 72.2 work-years. Of this amount, OPP obligated \$11.3 million in Personnel Compensation and Benefits (PC&B).

Appropriated funds are used in addition to registration fee funds. In FY 2020, approximately \$12 million in appropriated funds were used for pesticide registration activities.

The Pesticide Registration Fund has two types of receipts: fee collections and interest earned on investments. Of the \$19.1 million in FY 2020 net receipts, more than 99.9% were fee collections.

Registration Program Performance Measures

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

Measure 1: Average number of days to complete PRIA decisions for new active ingredients

Results: The average decision review time frame for new active ingredient decisions completed in FY 2020 was 876 days; the FY 2020 target was 619 days.

Measure 2: Average number of days exceeding PRIA decision timeframes for new active ingredient decisions

Results: In FY 2020, the average number of days by which the decision timeframe for completed new active ingredient actions exceeded the statutory timeframes was 373 days; the FY 2020 target was 272 days.

Measure 3: Percentage of decisions (registration actions) completed on time (on or before PRIA or negotiated due date)

Results: In FY 2020, EPA completed 98% of PRIA actions "on-time"; the FY 2020 target was a 99% on-time completion. Of the 2,385 PRIA decisions completed in the fiscal year, 46 were completed after the original or negotiated due date.

Principal Financial Statements

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

	2020	2019
ASSETS		
Intragovernmental:		
Fund Balance With Treasury (Note 2)	\$ 16,675	\$ 15,246
Other (Note 3)	-	17
Total Intragovernmental	16,675	15,263
Property, Plant and Equipment, Net (Note 5)	300	114
Total Assets	\$ 16,975	\$ 15,377
 LIABILITIES		
Intragovernmental:		
Accounts Payable and Accrued Liabilities (Note 4)	\$ 140	\$ 80
Other (Note 6)	60	114
Total Intragovernmental	200	194
With the Public:		
Accounts Payable and Accrued Liabilities (Note 4)	540	851
Payroll and Benefits Payable (Note 9)	3,519	3,088
Other (Note 6)	15,255	13,342
Total Liabilities	19,514	17,475
 NET POSITION		
Cumulative Results of Operations - Funds from Dedicated Collections	(2,539)	(2,098)
Total Net Position	(2,539)	(2,098)
Total Liabilities and Net Position	\$ 16,975	\$ 15,377

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

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

	2020	2019
COSTS		
Gross Costs (Note 11)	\$ 18,997	\$ 22,605
Expenses from Other Appropriations (Note 10)	44,921	39,271
Total Costs	63,918	61,876
Less:		
Earned Revenue (Note 11)	17,452	18,474
NET COST OF OPERATIONS (Note 12)	\$ 46,466	\$ 43,402

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

5.

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

	2020	2019
Cumulative Results of Operations:		
Net Position - Beginning of Period	\$ (2,098)	\$ (2,098)
Budgetary Financing Sources:		
Nonexchange Revenue - Securities Investment	125	229
Nonexchange Revenue - Other	-	3,471
Transfers In/Out	389	-
Income from Other Appropriations (Note 10)	44,921	39,271
Total Budgetary Financing Sources	45,435	42,971
Other Financing Sources (Non-Exchange)		
Imputed Financing Sources	590	431
Total Other Financing Sources	590	431
Net Cost of Operations (Note 12)	\$ (46,466)	\$ (43,402)
Net Change	(441)	-
Cumulative Results of Operations	\$ (2,539)	\$ (2,098)
TOTAL NET POSITION	\$ (2,539)	\$ (2,098)

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

U.S. Environmental Protection Agency
 PRIA
 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 (discretionary)	\$ 6,426	\$ 8,944
Appropriations (discretionary)	<u>19,779</u>	<u>16,623</u>
Total Budgetary Resources	<u>\$ 26,205</u>	<u>\$ 25,567</u>
STATUS OF BUDGETARY RESOURCES		
New Obligations and Upward adjustments (total)	\$ 17,191	\$ 19,351
Unobligated Balance, End of Year:		
Apportioned, Unexpired Accounts	7,235	6,216
Unapportioned, Unexpired accounts	<u>1,779</u>	<u>-</u>
Unobligated Balance, End of Year (total): (Note 7)	<u>9,014</u>	<u>6,216</u>
Total Status of Budgetary Resources	<u>\$ 26,205</u>	<u>\$ 25,567</u>
OUTLAYS, NET		
Outlays, Net (total) (discretionary)	\$ 18,655	\$ 21,325
Distributed Offsetting Receipts (-)	<u>(19,779)</u>	<u>(16,623)</u>
Agency Outlays, Net (discretionary)	<u>\$ (1,124)</u>	<u>\$ 4,702</u>

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

7.

U.S. Environmental Protection Agency
PRIA
Notes to the Financial Statements
For the Fiscal Years Ended September 30, 2020 and 2019
(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, land, water, 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 2) extended the authority to collect pesticide registration service fees through FY 2012. PRIA 2 became effective October 1, 2007. PRIA 2 was reauthorized with the passage of the Pesticide Registration Improvement Extension Act (referred to as PRIA 3) on September 28, 2012. PRIA 3 became effective October 1, 2012, and authorized collection of registration fees through FY 2018. PRIA 4 became effective March 8, 2019 and authorized collection of registration fees through FY 2023. 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. 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 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 2018 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.

U.S. Environmental Protection Agency
PRIA
Notes to the Financial Statements
For the Fiscal Years Ended September 30, 2020 and 2019
(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. All interfund balances and transactions have been eliminated.

EPA uses a modified matching principle since federal entities recognize unfunded liabilities (without budgetary resources) in accordance FASAB Statement of Federal Financial Accounting Standards (SFFAS) No. 5 *Accounting for Liabilities of the Federal Government*.

E. Revenues and Other Financing Sources

For FYs 2020 and 2019, PRIA received funding from fees collected from registrants requesting pesticide registrations. 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 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. 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 increased 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.

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

I. 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 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 6). 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. 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." Sick leave earned but not taken is not accrued as a liability. It is expensed as it is used.

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, 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.

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 reporting amounts of assets, liabilities and the reported amounts of the revenue and expenses during the period. Actual results could differ from those estimates.

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

N. 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
Other Fund Types:						
PRIA	\$ 16,675	\$ -	\$ 16,675	\$ 15,246	\$ -	\$ 15,246
Total	\$ 16,675	\$ -	\$ 16,675	\$ 15,246	\$ -	\$ 15,246

Status of Fund Balances:	2020	2019
Unobligated Amounts in Fund Balance:		
Available for Obligation	\$ 7,235	\$ 6,216
Unavailable for Obligation	1,779	-
Obligated Balance not yet Disbursed	7,232	9,030
Non-Budgetary FBWT	429	-
Total	\$ 16,675	\$ 15,246

Note 3. Other Assets

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

Intragovernmental:	2020	2019
Advances to Federal Agencies	\$ -	\$ 17
Total	\$ -	\$ 17

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

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

Note 4. Accounts Payable and Accrued Liabilities

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	\$ 140	\$ 80
Total	\$ 140	\$ 80
	2020	2019
Non-Federal:		
Accounts Payable	\$ -	\$ 8
Other Accrued Liabilities	540	843
Total	\$ 540	\$ 851

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.

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 resolved this material weakness in FY 2018.

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

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

	EPA- Held <u>Equipment</u>	Software (production) <u>(production)</u>	<u>Total</u>
Balance, Beginning of Year	\$ -	\$ 5,050	\$ 5,050
Additions	<u>202</u>	<u>-</u>	<u>202</u>
Balance, End of Year	<u>\$ 202</u>	<u>\$ 5,050</u>	<u>\$ 5,252</u>

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

	EPA- Held <u>Equipment</u>	Software (production) <u>(production)</u>	<u>Total</u>
Balance, Beginning of Year	\$ -	\$ 4,936	\$ 4,936
Depreciation Expense	<u>1</u>	<u>15</u>	<u>16</u>
Balance, End of Year	<u>\$ 1</u>	<u>\$ 4,951</u>	<u>\$ 4,952</u>

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

	EPA- Held <u>Equipment</u>	Software (production) <u>(production)</u>	<u>Total</u>
Balance, End of Year, Net	<u>\$ 201</u>	<u>\$ 99</u>	<u>\$ 300</u>

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	\$ 60	\$ -	\$ 60
Total Intragovernmental	<u>\$ 60</u>	<u>\$ -</u>	<u>\$ 60</u>
Other Liabilities - Non-Federal			
Current			
Unearned Advances, Non-Federal	\$ 15,255	\$ -	\$ 15,255
Total Non-Federal	<u>\$ 15,255</u>	<u>\$ -</u>	<u>\$ 15,255</u>

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

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

	<u>Covered by Budgetary Resources</u>	<u>Not Covered by Resources</u>	<u>Total</u>
Current			
Employer Contributions & Payroll Taxes	\$ 114	\$ -	\$ 114
Total Intragovernmental	<u>\$ 114</u>	<u>\$ -</u>	<u>\$ 114</u>
Other Liabilities - Non-Federal			
Current			
Unearned Advances from Fee Collections*, Non-Federal	\$ 13,342	\$ -	\$ 13,342
Total Non-Federal	<u>\$ 13,342</u>	<u>\$ -</u>	<u>\$ 13,342</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 10).

Note 7. Unobligated Balances Available

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	\$ 9,014	\$ 6,216
Expired Unobligated Balance	-	-
Total	<u>\$ 9,014</u>	<u>\$ 6,216</u>

Note 8. Undelivered Orders at the End of the Period

Budgetary resources obligated for undelivered orders at September 30, 2020 and 2019, was \$5,997 and \$9,017, respectively.

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

Note 9. Payroll and Benefits Payable

Payroll and benefits payable to the EPA employees for the years September 30, 2020 and 2019 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	\$ 272	\$ -	\$ 272
Withholdings Payable	5	-	5
Employer Contributions Payable - Thrift Savings Plan	<u>28</u>	<u>-</u>	<u>28</u>
Total - Current	305	-	305
Accrued Unfunded Annual Leave	<u>-</u>	<u>3,214</u>	<u>3,214</u>
Total - NonCurrent	-	3,214	3,214
Total	<u>\$ 305</u>	<u>\$ 3,214</u>	<u>\$ 3,519</u>
	<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	\$ 554	\$ -	\$ 554
Withholdings Payable	4	-	4
Employer Contributions Payable - Thrift Savings Plan	<u>62</u>	<u>-</u>	<u>62</u>
Total - Current	620	-	620
Accrued Unfunded Annual Leave	<u>-</u>	<u>2,468</u>	<u>2,468</u>
Total - Non-Current	-	2,468	2,468
Total	<u>\$ 620</u>	<u>\$ 2,468</u>	<u>\$ 3,088</u>

At various periods throughout FY 2020 and FY 2019 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 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 \$60 thousand and \$305 thousand for employer contributions and accrued funded payroll and benefits as compared to FY 2019's balances of \$114 thousand and \$620 thousand, respectively.

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

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

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.

	2020	2019
Income from Other Appropriations	\$ 44,921	\$ 39,271
Expenses from Other Appropriations	44,921	39,271
Net Effect	\$ -	\$ -

Note 11. Exchange Revenues, Statement of Net Cost

	2020	2019
Costs:		
Intragovernmental	\$ 4,490	\$ 3,906
With the Public	14,507	18,699
Expenses from Other Appropriations	44,921	39,271
Total Costs	63,918	61,876
Revenue:		
With the Public	17,452	18,474
Total Revenue	17,452	18,474
Net Cost of Operations:	\$ 46,466	\$ 43,402

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

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

Note 12. Reconciliation of Net Cost of Operations to Net Outlays

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.

	<u>Intra- governmental</u>	<u>With the Public</u>	<u>Total 2020</u>
NET COST	\$ 4,490	\$ 41,976	\$ 46,466
Components of Net Cost That Are Not Part of Net Outlays:			
Property, Plant and Equipment Depreciation	-	(225)	(225)
Other	-	(44,510)	(44,510)
Increase/(Decrease) in Assets:			
Other Assets	(17)	-	(17)
(Increase)/Decrease in Liabilities:			
Accounts Payable and Accrued Liabilities	(61)	313	252
Payroll and Benefits Payable	-	(432)	(432)
Other Liabilities	54	(1,912)	(1,858)
Other Financing Sources:			
Federal Employee Retirement Benefit Costs Paid by OPM and Imputed to the Agency	(550)	-	(550)
Other Imputed Financing	(40)	-	(40)
Total Components of Net Cost That Are Not Part of Net Outlays	<u>3,876</u>	<u>(4,790)</u>	<u>(914)</u>
Other Temporary Timing Differences	-	(210)	(210)
NET OUTLAYS	<u>\$ 3,876</u>	<u>\$ (5,000)</u>	<u>\$ (1,124)</u>

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

	<u>Intra- governmental</u>	<u>With the Public</u>	<u>Total 2019</u>
NET COST	\$ 3,906	\$ 39,496	\$ 43,402
Components of Net Cost That Are Not Part of Net Outlays:			
Property, Plant and Equipment Depreciation	-	(95)	(95)
Other	-	(39,271)	(39,271)
Increase/(Decrease) in Assets:			
Other Assets	(115)	-	(115)
(Increase)/Decrease in Liabilities:			
Accounts Payable and Accrued Liabilities	(31)	(30)	(61)
Payroll and Benefits Payable	-	(570)	(570)
Other Liabilities	(91)	5,587	5,496
Other Financing Sources:			
Other Imputed Financing	<u>431</u>	<u>-</u>	<u>431</u>
Total Components of Net Cost That Are Not Part of Net Outlays	4,100	5,117	9,217
Other Temporary Timing Differences	-	(4,515)	(4,515)
NET OUTLAYS	<u>\$ 4,100</u>	<u>\$ 602</u>	<u>\$ 4,702</u>

Agency Response to Draft Report



UNITED STATES ENVIRONMENTAL PROTECTION AGENCY

WASHINGTON, D.C. 20460

November 30, 2021

OFFICE OF THE
CHIEF FINANCIAL OFFICER

MEMORANDUM

SUBJECT: Response to the Office of Inspector General Draft Report, Project No. OA-FY21-0081, *“EPA’s Fiscal Years 2020 and 2019 Financial Statements for the Pesticide Registration Fund,”* dated November 1, 2021

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

Amin,
Faisal

Digitally signed by
Amin, Faisal
Date: 2021.11.30
17:32:41 -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’S RESPONSE TO DRAFT REPORT RECOMMENDATIONS

No.	Recommendation	High-Level Corrective Action(s)	Estimated Completion Date
1	Correct the calculation in its Pesticide Registration Improvement Act 20-04 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 Pesticide Registration Improvement Act Fund financial statements and adjustments entered into 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 not available 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

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.

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