



OFFICE OF INSPECTOR GENERAL

Catalyst for Improving the Environment

Audit Report

Fiscal 2003 and 2002 Financial Statements for the Pesticides Reregistration and Expedited Processing Fund

Report No. 2004-1-00071

June 3, 2004

Abbreviations

EPA	Environmental Protection Agency
FIFRA	Federal Insecticide, Fungicide, and Rodenticide Act
FMFIA	Federal Managers' Financial Integrity Act
FQPA	Food Quality Protection Act
OMB	Office of Management and Budget




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

OFFICE OF
INSPECTOR GENERAL

June 03, 2004

MEMORANDUM

SUBJECT: Fiscal 2003 and 2002 Financial Statements for the
Pesticides Reregistration and Expedited Processing Fund

FROM: Paul C. Curtis 
Director, Financial Statement Audits

TO: Stephen L. Johnson
Assistant Administrator for Prevention,
Pesticides and Toxic Substances (7101)

Mike Ryan
Acting Chief Financial Officer (2710A)

Attached is our audit report on the fiscal 2003 and 2002 financial statements for the Pesticides Reregistration and Expedited Processing Fund (FIFRA Fund). We discussed our findings with your staff and issued a draft report. The comments we received on the draft report are summarized in this final report. We also included the complete response as Appendix B of the report. We appreciate your staff's assistance and cooperation during the conduct of this audit.

In accordance with EPA Order 2750, we are requesting the Assistant Administrator for Prevention, Pesticides and Toxic Substances, as the primary action official, provide this office with a written response to this report within 90 days of the final audit report date. For corrective actions planned but not yet completed by the response date, refer to specific milestone dates that will assist us in deciding whether to close this report in our audit tracking system.

This audit report contains findings that the Office of Inspector general (OIG) identified and corrective actions the OIG recommends. This audit represents the opinion of the OIG and the findings in this report do not necessarily represent the final EPA position. Final determinations on matters in this audit report will be made by EPA managers in accordance with established EPA audit resolution procedures. We have no objection to the further release of this report to the public.

Should you or your staff have any questions about the report, please contact me at (202) 566-2523, or Robert Smith of my staff at (202) 566-2531.

Attachment

Executive Summary

The Environmental Protection Agency (EPA) is responsible for reassessing the safety of older pesticide registrations against modern health and environmental testing standards. To expedite this reregistration process, Congress authorized EPA to collect fees from pesticide manufacturers. The fees are deposited into the Pesticides Reregistration and Expedited Processing Fund (known as the FIFRA fund). Each year, the Agency prepares financial statements that present financial information about the Fund, along with information about EPA's progress in reregistering pesticides. The Food Quality Protection Act requires that we perform an annual audit of the FIFRA Fund financial statements.

Objectives

Our primary objectives were to determine whether:

- the FIFRA Fund's financial statements were fairly presented in all material respects in conformity with generally accepted accounting principles;
- EPA's internal control over financial reporting related to the FIFRA financial statements were in place; and
- EPA management complied with applicable laws and regulations that, if not followed, could have a direct and material effect on the FIFRA financial statements.

Results in Brief

Opinion on Financial Statements. In our opinion, the fiscal 2003 and 2002 FIFRA Fund financial statements are fairly presented.

Evaluation of Internal Controls. Material weaknesses as defined by Office of Management and Budget (OMB) Bulletin 01-02 are situations where internal controls do not reduce, to a relatively low level, the risk that errors, fraud, or noncompliance in amounts material to the financial statements, including the performance measures reported for the Fund, may occur and not be detected in a timely manner by employees in the normal course of performing their assigned functions. We are reporting no material weaknesses. However, we identified three reportable conditions, as follows:

- We could not assess the adequacy of the automated controls. As we have previously reported, we could not assess the adequacy of the automated internal control structure as it relates to automated input, processing, and output controls for the Integrated Financial Management System. We could not evaluate the reliability of these controls because existing documentation is not detailed enough to develop a sufficient test plan.

- We cannot attest to the accuracy of the performance measure outcomes disclosed in the report. We have been unable to satisfy ourselves that the fiscal 2003 accomplishments reported under Reregistration Program performance measures one and two are final and complete. The number of completed pesticides decisions and the number of pesticide products cancelled could change, subsequent to the issuance of this report.
- The timing of the issuing performance measure reports and the fiscal year do not coincide. The information presented in performance measure three is based upon a report that was generated on November 24, 2003; therefore, some of the reregistration studies received and reviewed by the Agency may have taken place in fiscal 2004. Additionally, as a result of EPA's transition to a new pesticides information system, the total number of reregistration studies received through November 24, 2003, is less than the reregistration studies reported received by the Agency through October 1, 2002.

Tests of Compliance with Laws and Regulations. We tested compliance with those laws and regulations that could either materially affect the FIFRA Fund financial statements, or that we considered significant to the audit. The objective of our audit, including our tests of compliance with applicable laws and regulations, was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

Recommendations

We recommend that the Director, Office of Pesticides Programs: disclose that the information in performance measure three is based upon data as of November 24, 2003, in the fiscal 2003 FIFRA financial statements; and disclose the reasons for the decrease in the total number of reregistration studies received by EPA between October 1, 2002, and November 24, 2003, in the fiscal 2003 FIFRA financial statements.

Agency Comment and OIG Evaluation

In a memorandum dated April 12, 2004, the Office of Pesticide Programs agreed to disclose the that the information in performance measure three is based upon data as of November 24, 2003, and also agreed to disclose the decrease in number of studies received. On April 29, 2004, the Agency revised the FIFRA financial statements and adequately disclosed accurate performance measure data and reasons for the decrease in reregistration studies. Therefore, no further action is required.

Table of Contents

Executive Summary i

Inspector General’s Report on the Fiscal 2003 and 2002 Financial Statements for the Pesticides Reregistration and Expedited Processing Fund

Opinion on the FIFRA Fund Financial Statements 1
Evaluation of Internal Controls 2
Tests of Compliance with Laws and Regulations 4
Overview Section of the Financial Statements 4
Prior Audit Coverage 5
Recommendations 5
Agency Comments and OIG Evaluation 5

Appendices

- A Fiscal 2003 and 2002 FIFRA Financial Statements
- B Agency’s Response to the Draft Report
- C Distribution

Inspector General's Report on the Fiscal 2003 and 2002 Financial Statements for the Pesticides Reregistration and Expedited Processing Fund

The Administrator
U.S. Environmental Protection Agency:

We have audited the Pesticides Reregistration and Expedited Processing Fund (known as the FIFRA Fund) balance sheet as of September 30, 2003 and 2002, and the related statements of net cost, changes in net position, budgetary resources, and financing for the years then ended. These financial statements are the responsibility of Environmental Protection Agency's (EPA's) management. Our responsibility is to express an opinion on these financial statements based upon our audit.

We conducted our audit in accordance with generally accepted auditing standards; the standards applicable to financial statements contained in Government Auditing Standards, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin 01-02, *Audit Requirements for Federal Financial Statements*. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements present fairly the assets, liabilities, net position, budgetary resources, financing activities and reconciliation of net costs to budgetary obligations, of the FIFRA fund, as of and for the years ended September 30, 2003 and 2002, in accordance with accounting principles generally accepted in the United States of America.

Throughout fiscal 2003, employees and their associated payroll costs were transferred from the FIFRA fund to the Environmental Programs and Management appropriation. These employees were transferred in order to keep FIFRA's obligations and disbursements within budgetary and cash limits. As funds are available, employees will charge their time directly to FIFRA. As funds become limited, those employees are transferred to the Environmental Programs and Management appropriation. At the end of fiscal 2003 and 2002, about 350 and 290 employees, respectively charged their time directly to the FIFRA fixed account number. In addition, due to the year-end unfunded payroll liabilities associated with those employees charging FIFRA, the FIFRA Fund assets are not sufficient to cover the unfunded liabilities of the fund. As a result, the FIFRA Fund will either have to obtain additional funding or such unfunded liabilities would have to be paid from other EPA appropriations.

Evaluation of Internal Controls

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

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

Reliability of performance reporting - Transactions and other data that support reported performance measures are properly recorded, processed, and summarized to permit the preparation of performance information in accordance with criteria stated by management.

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

We did not test all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act (FMFIA) of 1982, such as those controls relevant to ensuring efficient operations. The objective of our audit was not to provide assurance on internal controls and, accordingly, we do not express an opinion on internal controls. Our consideration of the internal controls over financial reporting would not necessarily disclose all matters in the internal controls that might be reportable conditions or material weaknesses. Because of inherent limitations in any internal control structure, losses, noncompliance, or misstatements could occur and not be detected. Also, projecting our evaluation of internal controls to future periods is subject to the risk that controls may become inadequate because of changes in conditions, or the degree of compliance with such controls may deteriorate.

With respect to internal control related to performance measures presented in the Overview and Analysis (which addresses requirements for a Management Discussion and Analysis), we obtained an understanding of the design of significant internal controls relating to the existence and completeness assertions, as required by OMB Bulletin No. 01-02. Our procedures were not designed to provide assurance on internal control over reported performance measures and, accordingly, we do not express an opinion on such controls.

Material Weaknesses

Material weaknesses as defined by OMB Bulletin 01-02 are situations where internal controls do not reduce, to a relatively low level, the risk that errors, fraud, or noncompliance in amounts material to the financial statements, including the performance measures reported for the Fund, may occur and not be detected in a timely manner by employees in the normal course of

performing their assigned functions. We noted certain matters discussed below involving internal controls and operations that we consider to be reportable conditions, although none are believed to be material weaknesses.

Reportable Conditions

OMB Bulletin 01-02 defines a reportable conditions as matters that come to the auditor's attention that, in the auditor's judgment, should be communicated because they represent significant deficiencies in the design or operation of internal control, that could adversely affect the organization's ability to meet the objectives defined above. For fiscal 2003 we identified three reportable conditions, as follows:

- We could not assess the adequacy of the automated controls. As we have previously reported, we could not assess the adequacy of the automated internal control structure as it relates to automated input, processing, and output controls for the Integrated Financial Management System. During past financial statement audits, we attempted to evaluate controls without systems documentation, but these alternatives proved to be inefficient and impractical. We could not evaluate the reliability of these controls because existing documentation is not detailed enough to develop a sufficient test plan.
- We cannot attest to the accuracy of the performance measure outcomes disclosed in the report. We have been unable to satisfy ourselves that the fiscal 2003 accomplishments reported under Reregistration Program performance measures one and two are final and complete. The number of completed pesticides decisions and the number of pesticide products cancelled could change, subsequent to the issuance of this report.
- The timing of the issuing performance measure reports and the fiscal year do not coincide. Also, as a result of EPA's transition to a new pesticides information system the information presented in performance measure three is based upon activity through November 24, 2003, and the total number of reregistration studies received decreased from the 28,707 as of October 1, 2002, to 27,260 as of November 24, 2003.

Comparison of EPA's FMFIA Report with Our Evaluation of Internal Controls

OMB Bulletin 01-02, *Audit Requirements for Federal Financial Statements*, requires us to compare material weaknesses disclosed during the audit with those material weaknesses reported in the agency's FMFIA report that relate to the financial statements and identify material weaknesses disclosed by audit that were not reported in the agency's FMFIA report.

For reporting under FMFIA, material weaknesses are defined differently than they are defined for financial statement audit purposes. OMB Circular A-123, *Management Accountability and Control*, defines a material weakness as a deficiency that the Agency head determines to be significant enough to be reported outside the Agency.

Our audit did not disclose any material weaknesses, nor were any reported by the Agency as part of the Integrity Act process.

Tests of Compliance with Laws and Regulations

As part of obtaining reasonable assurance about whether the financial statements are free from material misstatement, we tested compliance with those laws and regulations that could either materially affect the FIFRA financial statements, or that we considered significant to the audit. The objective of our audit, including our tests of compliance with applicable laws and regulations, was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion. However, we did not identify any noncompliances that would result in a material misstatement to the audited financial statements.

Overview Section of the Financial Statements

Our audit work related to the information presented in Management's Overview and Analysis of the Pesticides Program included comparing the overview information with information in EPA's principal financial statements to ensure that it was consistent. In comparing the overview information with information presented in EPA's principal financial statements, we did not identify material inconsistencies between the information presented in the two documents. Our audit work also included obtaining an understanding of the design of significant internal controls relating to the existence and completeness assertions of the performance measures in the Overview. Our procedures were not designed to provide assurance on internal control over reported performance measures and, accordingly, we do not express an opinion on such controls.

We reviewed supporting documentation for each of the six performance measures listed in Management's Overview and Analysis of the Pesticides Program, but we have been unable to satisfy ourselves that the fiscal 2003 accomplishments reported under Reregistration Program performance measures one and two are final and complete. The number of completed pesticides decisions and the number of pesticide products cancelled could change, subsequent to the issuance of this report.

Performance measure three explains the progress EPA is making in reducing the number of required reregistration studies. The information presented in performance measure three is not as of the end of fiscal 2003, but is based upon a report that was generated on November 24, 2003; therefore, some of the reregistration studies received and reviewed by the Agency may have taken place in fiscal 2004. Additionally, as a result of EPA's transition to a new pesticides information system, the 27,260 studies reported received by the Agency through the reregistration program as of November 24, 2003, is less than the 28,707 studies reported received by the Agency through the reregistration program as of October 1, 2002. Office of Pesticide Programs staff has explained that in converting to the new information system, duplicate or erroneous records were removed from the data base resulting in a lower total number of studies received. We believe this information should be disclosed in the fiscal 2003 FIFRA financial statements

Prior Audit Coverage

During the fiscal 2002 audit, we reported a material noncompliance with those laws and regulations that could affect the FIFRA Fund financial statements. The Agency was not in compliance with the Food Quality Protection Act of 1996 (FQPA) because the Agency exceeded the limitation on the usage of maintenance fees.

During the fiscal 2001 audit, we reported one material noncompliance with those laws and regulations that could affect the FIFRA Fund financial statements, or that we consider significant to the audit. The FQPA requires that the EPA Administrator establish and publish annually in the Federal Register FQPA performance measures and goals. As of the 2001 audit, EPA did not publish the Federal Register Notice for the fiscal 2000 FQPA performance measures and goals. On September 13, 2002, EPA issued a Federal Register Notice that included both the fiscal 2000 and 2001 measures and goals. EPA published the Federal Register Notice for the fiscal 2002 FQPA performance measures and goals on July 30, 2003.

Recommendations

We recommend that the Director, Office of Pesticides Programs:

1. Disclose that the information in performance measure three is based upon data as of November 24, 2003, in the fiscal 2003 FIFRA financial statements.
2. Disclose the reasons for the decrease in the total number of reregistration studies received by EPA between October 1, 2002, and November 24, 2003, in the fiscal 2003 FIFRA financial statements.

Agency Comments and OIG Evaluation

In a memorandum dated April 12, 2004, the Office of Pesticide Programs agreed to disclose that the information in performance measure three is based upon data as of November 24, 2003. The Office of Pesticide Programs also agreed to disclose the reasons for a decrease in the total number of reregistration studies received. On April 29, 2004, the Agency revised the FIFRA financial statements and adequately disclosed accurate performance measure data and reasons for the decrease in reregistration studies. Therefore, no further action is required.



Paul C. Curtis
Director, Financial Statement Audits
Office of Inspector General
U.S. Environmental Protection Agency
April 30, 2004

**FY 2003 FIFRA
FINANCIAL STATEMENTS**



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

TABLE OF CONTENTS

Overview of the Pesticide Program	1
Principal Financial Statements	13

**OVERVIEW AND ANALYSIS
OF THE PESTICIDE PROGRAM**

OVERVIEW AND ANALYSIS OF THE PESTICIDE PROGRAM

The Agency's Office of Pesticide Programs was established pursuant to the Federal Insecticide, Fungicide and Rodenticide Act (FIFRA) to protect public health and the environment. The law requires the Agency to balance public health and environmental concerns with the expected economic benefits derived from pesticides. The guiding principles of the pesticide program are to reduce risks from pesticides in food, the workplace, and other exposure pathways and to prevent pollution by encouraging the use of new and safer pesticides.

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

Tolerance Program Description

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

In 1954, Congress authorized the collection of fees for the establishment of tolerances for raw agricultural commodities (Section 408 of FFDCA). Congress, however, did not authorize the collection of fees for food additive tolerances (Section 409 of FFDCA). EPA, therefore, does not collect fees for food additive tolerances. The Agency also does not collect fees for Agency-initiated actions such as the revocation of tolerances for previously canceled pesticides. Fees collected for tolerances for raw agricultural commodities were deposited to the U.S. Treasury General Fund until 1963 when Congress established the Tolerance Fund. Specific fees are contained in 40 CFR 180.33 and range from \$4,600 to \$80,950 depending on the type of tolerance action requested. Waivers and/or refunds are granted for minor use pesticides submitted under the Inter-Regional Research Project Number 4 (IR-4 Program), public interest, such as reduced-risk pesticides, and economic hardship. The fee schedule is changed annually by the same percentage as the percent change in the federal General Schedule (GS) pay scale.

In 1996, pesticide reform legislation included provisions for additional fees to support reregistration activities. Passage of the Food Quality Protection Act (FQPA) of 1996 requires

tolerances to be reassessed as part of the reregistration program. Effective January 1997, all fees related to tolerance activities are deposited in the FIFRA Fund.

Pesticide Reregistration Program Description

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

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

In 1996, pesticide reform legislation included provisions for additional fees to support reregistration activities. Passage of the FQPA of 1996 implemented the following changes in the Pesticide Reregistration Program: reauthorized collection of maintenance fees through 2001 to complete the review of older pesticides to ensure they meet current standards (increased annual fees from \$14 million to \$16 million per year for 1998, 1999, and 2000 only) and required all tolerances (over 9,700) to be reassessed by 2006. EPA's 2003 appropriations bill extended authority to collect maintenance fees by one year for the amount of \$21.5 million.

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

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

Phase 2 - Declaration of Intent and Identification of Studies. Registrants notify EPA if they intend to reregister and identify missing studies. (Completed in FY 1990)

Phase 3 - Summarization of Studies. Registrants submit required existing studies. (Completed in FY 1991)

Phase 4 - EPA Review and Data Call-Ins (DCIs). EPA reviews the studies, identifies and "calls-in" missing studies by issuing a DCI. A "DCI" is a request to a pesticide registrant for scientific data to assist the Agency in determining the pesticide's eligibility for reregistration. (Completed in FY 1994)

Phase 5 - Reregistration Decisions. EPA reviews all studies and issues a Reregistration Eligibility Decision (RED) for the active ingredient(s). A "RED" is a decision by the Agency defining whether uses of a pesticide active ingredient are eligible or ineligible for reregistration. The registrant complies with the RED by submitting product specific data and new labels. EPA reregisters or cancels the product. Pesticide products are reregistered, based on a RED, when it meets all label requirements. This normally takes 14 to 20 months after issuance of the RED.

Research Program Description

Pesticide research continues to focus on providing scientifically-valid, cost-effective methods for evaluating risks associated with pesticide use, manufacture, and release into the environment. Research efforts in FY 2003 focused on developing new and revised human health effects test methods to improve EPA's understanding of the effects of pesticides on infants and children (age-related differences and activity patterns) and other highly-exposed groups. EPA also continued efforts to develop a systematic approach for determining the cumulative risk for a given set of exposure conditions. This approach, starting with less complex paradigms (e.g., risk from aggregate exposure to a single chemical or a class of pesticides with a common mode of action) builds towards the more complex, including consideration of different temporal dimensions of exposure. Additionally, research addressed agricultural and residential exposure and effects, with particular emphasis on children's health, including the special susceptibilities of infants and children exposed to pesticides and other toxins. Results from this work will support human and environmental risk assessments.

Enforcement and Compliance Assurance Program Description

The Pesticide Enforcement and Compliance Assurance Program focuses on pesticide product and user compliance, including problems relating to pesticide worker safety protection, ineffective antimicrobial products, food safety, adverse effects, and e-commerce. The enforcement and compliance assurance program provides compliance assistance to the regulated community through its National Agriculture Compliance Assistance Center, seminars, guidance

documents, brochures, and other forms of communication to ensure knowledge of and compliance with environmental laws.

EPA's grant support to states' and tribes' pesticide programs emphasizes pesticide worker protection standards, high risk pesticide activities including antimicrobials, pesticide misuse in urban areas, and the misapplication of structural pesticides. In FY 2003, states continued to conduct compliance monitoring inspections on core pesticide requirements.

EPA will continue its commitment to maintaining a strong compliance and enforcement presence. Agency priorities for FY 2003 and FY 2004 include enforcement for products making illegal public health claims, including unregistered and ineffective products, such as inefficacious hospital disinfectants; enforcement of worker protection standards; compliance monitoring and enforcement activities related to: 1) special action chemicals identified by the Office of Enforcement and Compliance Assurance, 2) unregistered sources of pesticidal active ingredients, and 3) illegal distribution, sale, and advertisement of pesticides and pesticidal services via the Internet.

Highlights and Accomplishments

Tolerance Performance Measures

Tolerance fees collected in FY 2003 were approximately \$1.5 million and obligations were \$2.0 million.

Measure: Tolerance re-evaluations.

Results: In FY 2003, EPA reassessed 119 tolerances and exemptions from tolerance. Of these, 79 reassessments occurred through reregistration/REDs, 14 were obtained through Tolerance Reassessment Decisions (TREDs), and 26 were from other sources. At the end of FY 2003, EPA had completed 6,626 tolerance reassessment decisions, addressing over 68% of the 9,721 tolerances that require reassessment.

Reregistration (FIFRA) Financial Perspective

During FY 2003, the Agency's obligations charged against the FIFRA Fund for the cost of the reregistration and expedited processing programs were \$20.7 million and 169 workyears. Of these amounts, the Office of Pesticide Programs obligated almost \$18.4 million of this cost and funded the 169 workyears.

Appropriated funds are used in addition to FIFRA revolving funds. In FY 2003, approximately \$25.8 million in appropriated funds were obligated for reregistration and

expedited processing program activities. The unobligated balance in the Fund at the end of FY 2003 was \$0.9 million.

The Fund has two types of receipts: fee collections and interest earned on investments. Of the \$21.6 million in FY 2003 receipts, approximately 99.8% were fee collections.

Reregistration Program (FIFRA) Performance Measures

The following measures support the program's strategic goals of Food Safety and Safer Pesticides as contained in the FY 2003 President's budget.

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

Results: OPP completed decisions for 42 pesticides in FY 2003. The number of Reregistration Eligibility Decisions (REDs) completed was 13. Of the 612 chemical cases (representing 3,822 chemical active ingredients), that initially were subject to reregistration, 227 have completed REDs. An additional 231 reregistration cases were voluntarily canceled before EPA invested significant resources in developing REDs. A total of 458 reregistration cases (75%), therefore, had completed the reregistration eligibility decision making process by the end of FY 2003, leaving 154 cases (25%) awaiting such decisions. In addition to the 13 FY 2003 REDs, the Agency completed interim reregistration eligibility decisions and interim tolerance reassessment/risk management decisions for 3 organophosphate (OP), carbamate, and triazine pesticides. These individual chemical decisions are considered "interim" pending EPA's cumulative decisions for the OPs, carbamates, and triazines, which share common mechanisms of toxicity.

Measure 2: Number of products reregistered, canceled, or amended.

Approximately 19,000 products are or eventually will be subject to product reregistration. Many products, however, contain more than one active ingredient. Since products are reassessed separately for each active ingredient, EPA will conduct approximately 38,000 product reviews.

Results: In FY 2003, 53 product reregistration actions¹, 40 product amendment actions, 5 product suspension actions and 213 product cancellation actions were completed. Currently a universe of approximately 9,656 products are undergoing or have completed product reregistration. The status of those products at the end of FY 2003 was as follows: 385 product

¹ Product reregistrations include federally registered products and special local needs registrations issued by states pursuant to Section 24(c) of FIFRA.

registrations had been amended; 4,019 products were cancelled²; 17 products were sent for suspension; 3,545 products had actions/decisions pending; and 1,690 products were reregistered. The Agency's goal in FY 2004 is to complete 450 product reregistration actions.

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

Results: EPA is making good progress in reviewing scientific studies submitted by registrants in support of pesticides undergoing reregistration. 27,260 studies have been received by the Agency through the reregistration program. Nearly 85% of these studies have been reviewed or have been found to be extraneous. Approximately 15% of all studies are awaiting review for future REDs to complete the reregistration program. (In 2003, OPP moved to a new information system, OPPIN. The studies reporting function for this measure was not available until November 24, 2003. The move to OPPIN allowed for the cleanup of duplicate bad and/or erroneous data, resulting in a lower total number of studies received than in prior reporting).

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

Results: The number and type of data requests or Data Call-In notices (DCIs) issued by EPA under FIFRA section 3(c)(2)(B) to support product reregistration for pesticide active

² A product cancellation is reported as a reregistration decision when a voluntary cancellation request is received, when the annual maintenance fee is not paid, or when a notice of intent to cancel due to unreasonable adverse effects is issued. In the case of a voluntary cancellation request, the process of finalizing the cancellation required by Section 6(f) of FIFRA may take about six months after receipt of the request to complete.

ingredients included in FY2003 REDs are shown in Table 1. Table 1. Data Call-Ins Issued to Support Product Reregistration for FY 2003 REDs

Case No.	Case Name	Number of Products Covered by the RED ³	Number of Product Chemistry Studies Required ⁴	Number of Acute Toxicology Studies Required ⁵	Number of Efficacy Studies Required
2200	Dinocap (Voluntary Cancellation)	0	N/A	N/A	N/A
0046	Diuron	101	31	Acute toxicity batching has not been finalized.	0
0290	Fenthion (Voluntary Cancellation)	6	N/A	N/A	N/A
2280	Fenvalerate (Voluntary Cancellation)	54	N/A	N/A	N/A
2325	Imazalil	16	31	72 (1 batch/11 products not batched)	0
2215	MGK-326 (Dipropyl isocinchomeronate)	92	31	Acute toxicity batching has not been finalized.	0
2435	Molinate (Voluntary Cancellation)	13	N/A	N/A	N/A
2485	Oxadiazon	53	31	216 (5 batches/31 products not batched)	0
0226	Propanil	42	31	162 (9 batches/18 products not batched)	0
2605	Sodium Acifluorfen	10	31	54 (1 batch/8 products not batched)	0
2680	Thiophanate-Methyl	67	31	162 (6 batches/21 products not batched)	0
3146	Triethylene Glycol	18	34	72 (4 batches/8 products not batched)	0
2180	Ziram	21	31	48 (4 batches/4 products not batched)	0

³ The number of registered products containing a pesticide active ingredient can change over time. The product total that appears in the RED document (counted when the RED is signed) may be different than the number of products that EPA is tracking for product reregistration (counted later, when the RED is issued). This table reflects the final number of products associated with each RED, as they are being tracked for product reregistration.

⁴ This column shows the number of product chemistry studies that are required for each product covered by the RED.

⁵ In an effort to reduce the time, resources, and number of animals needed to fulfill acute toxicity data requirements, EPA “batches” products that can be considered similar from an acute toxicity standpoint. For example, one batch could contain five products. In this instance, if six acute toxicology studies usually were required per product, only six studies (rather than 30 studies) would be required for the entire batch. Factors considered in the sorting process include each product’s active and inert ingredients (e.g., identity, percent composition, and biological activity), type of formulation (e.g., emulsifiable concentrate, aerosol, wettable powder, granular, etc.), and labeling (e.g., signal word, use classification, precautionary labeling, etc.). The Agency does not describe batched products as “substantially similar,” because all products within a batch may not be considered chemically similar or have identical use patterns. (Note: FIFRA Section 24(c) or Special Local Need (SLN) registrations are not included in acute toxicity batchings because they are supported by a valid parent product (Section 3) registration.)

The number and type of data requests or Data Call-In notices (DCIs) issued by EPA under FIFRA section 3(c)(2)(B) to support product reregistration for pesticide active ingredients included in FY 2003 IREDs are shown in Table 2.

Table 2. Data Call-Ins Issued to Support Product Reregistration for FY 2003 IREDs

Case No.	Case Name	Number of Products Covered by the IRED ⁶	Number of Product Chemistry Studies Required ⁷	Number of Acute Toxicology Studies Required ⁸	Number of Efficacy Studies Required
0062	Atrazine	174	22	294 (14 batches/35 products not batched)	0
0080	Carbaryl	314	31	852 (37 batches/105 products not batched)	5
0153	Methyl Parathion	28	31	36 (3 batches/3 products not batched)	0

Measure 5: Future Schedule for Reregistrations.

Results: EPA is now conducting reregistration in conjunction with tolerance reassessment under FQPA. That law requires the Agency to reassess all existing tolerances over a ten year period to ensure consistency with the new safety standard, and to consider pesticides

⁶ The number of registered products containing a pesticide active ingredient can change over time. The product total that appears in the RED document (counted when the RED is signed) may be different than the number of products that EPA is tracking for product reregistration (counted later, when the RED is issued). This table reflects the final number of products associated with each RED, as they are being tracked for product reregistration.

⁷ This column shows the number of product chemistry studies that are required for each product covered by the RED.

⁸ In an effort to reduce the time, resources, and number of animals needed to fulfill acute toxicity data requirements, EPA “batches” products that can be considered similar from an acute toxicity standpoint. For example, one batch could contain five products. In this instance, if six acute toxicology studies usually were required per product, only six studies (rather than 30 studies) would be required for the entire batch. Factors considered in the sorting process include each product’s active and inert ingredients (e.g., identity, percent composition, and biological activity), type of formulation (e.g., emulsifiable concentrate, aerosol, wettable powder, granular, etc.), and labeling (e.g., signal word, use classification, precautionary labeling, etc.). The Agency does not describe batched products as “substantially similar,” because all products within a batch may not be considered chemically similar or have identical use patterns. (Note: FIFRA Section 24(c) or Special Local Need (SLN) registrations are not included in acute toxicity batchings because they are supported by a valid parent product (Section 3) registration.)

that appear to pose the greatest risk first. The organophosphate (OP) pesticides thus have been the focal point of EPA's reregistration and tolerance reassessment programs for several years (see List 1).

List 1. The Organophosphate Pesticides

Organophosphate Pesticides with Decisions Pending			
Dichlorvos (DDVP)	Dimethoate	Malathion	
Organophosphate Pesticides with Individual Decisions Completed			
Acephate	Dicrotophos	Methidathion	Pirimiphos methyl
Azinphos-methyl	Disulfoton	Methyl parathion	Profenofos
Bensulide	Ethion	Mevinphos	Propetamphos
Cadusafos	Ethoprop	Naled	Sulfotepp
Chlorethoxyfos	Ethyl Parathion	Oxydemeton-methyl	Temephos
Chlorpyrifos	Fenamiphos	Phorate	Terbufos
Chlorpyrifos methyl	Fenitrothion	Phosalone	Tetrachlorvinphos
Coumaphos	Fenthion	Phosmet	Tribufos (DEF)
Diazinon	Methamidophos	Phostebupirim	Trichlorfon

EPA currently is reviewing each of the OP pesticides with individual decisions pending, and expects to complete risk assessments and interim risk management decisions for these three pesticides in FY 2005.

List 2. Fiscal Year 2004 Candidates for Decisions - subject to change

FY 2004 RED, IRED, and TRED Candidate Pesticides

RED Candidates

Benfluralin	MCPA	Pine Oils
Benzothiazolin-3-one (BIT)	Naphthalene Acetic Acid	Propylene/Dipropylene glycol
Carboxin	Omazine Salts	Sabadilla alkaloids
Cycloate	Phenol and Salts	Sulfonated oleic acid
Dihalodialkylidantoin	PHMB	Thiram
Ethoxyquin		

IRED Candidates

Atrazine Revised IRED (due and completed 10-31-03)	Formetanate HCl
--	-----------------

TRED Candidates

Amitraz	Desmedipham	Oil of Orange
Bacillus thuringiensis var. San Diego (completed)	Dimethenamid	Oryzalin
Boric Acid Group	Flumetsulam	Putrescent Whole Egg Solids
Carbon Dioxide (completed)	Fluridone	Thifensulfuron
Chlorimuron ethyl	Limonene	Tribenuron methyl
DCPA or Dacthal	Nitrogen(completed)	Trifluralin
	Oil of Lemon	

Reducing Exposure through Human Health Protection Research

In FY 2003, EPA's research program delivered state-of-the-science tools (methods, models, approaches) and quality exposure data for characterizing aggregate risks from exposure to pesticides to the Office of Prevention, Pesticides, and Toxic Substances (OPPTS) in order to reduce uncertainty in risk assessments under FQPA. Major products resulting from this research include: 1) completion of a large scale exposure study conducted in North Carolina and Ohio assessing aggregate exposures for 260 pre-school children to pesticides, EDCs and other persistent pollutants; 2) a report outlining the key factors influencing young children's exposures to pesticides; 3) a peer-reviewed design for a longitudinal study characterizing aggregate pesticide exposures for very young children; 4) a peer-reviewed manuscript characterizing the health effects resulting from exposures to mixtures of selected anticholinesterase insecticides; 5) a report summarizing the results of four case studies of neurodevelopmental toxicants and recommendations for improving future physiologically-based pharmacokinetic (PBPK) models; and 6) results from a workshop defining the current and future research needs regarding temporal variability in pesticide exposure modeling and assessment.

These research results will be used by OPPTS in the 2006 reassessment of current use

pesticides. The data and improved understanding(s) gained through this research program will reduce some of the uncertainties associated with and improve the default assumptions used in risk assessments. In addition, These results will be used by the Office of Research and Development and OPPTS to prioritize future research activities.

**PRINCIPAL
FINANCIAL
STATEMENTS**

CONTENTS

Financial Statements

Balance Sheet
Statement of Net Cost
Statement of Changes in Net Position
Statement of Budgetary Resources
Statement of Financing

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies
Note 2. Fund Balances with Treasury
Note 3. Other Liabilities
Note 4. Payroll and Benefits Payable
Note 5. Income and Expenses from Other Appropriations
Note 6. Exchange Revenues, Statement of Net Cost
Note 7. Change in Annual Leave Liability, Statement of Financing

Environmental Protection Agency
FIFRA
Balance Sheet
As of September 30, 2003 and 2002
(Dollars in Thousands)

	FY 2003	FY 2002
ASSETS		
Intragovernmental		
Fund Balance With Treasury (Note 2)	\$ 1,797	\$ 2,999
Investments, Unamortized Discount	(3)	0
Advances to Working Capital Fund	0	67
Total Intragovernmental Assets	\$ 1,794	\$ 3,066
LIABILITIES		
Intragovernmental		
Accounts Payable and Accrued Liabilities	\$ 229	\$ 15
Other (Note 3)	153	274
Total Intragovernmental	\$ 382	\$ 289
Accounts Payable and Accrued Liabilities	15	178
Payroll and Benefits Payable (Note 4)	3,292	3,436
Other (Note 3)	219	4
Total Liabilities	\$ 3,908	\$ 3,907
NET POSITION		
Cumulative Results of Operations	\$ (2,114)	\$ (841)
Total Net Position	(2,114)	(841)
Total Liabilities and Net Position	\$ 1,794	\$ 3,066

The accompanying notes are an integral part of these statements.

Environmental Protection Agency
FIFRA
Statement of Net Cost
For the Years Ended September 30, 2003 and 2002
(Dollars in Thousands)

COSTS	FY 2003	FY 2002
Intragovernmental	\$ 7,491	\$ 5,251
With the Public	17,835	16,170
Expenses from Other Appropriations (Note 5)	41,578	34,641
Total Costs	<u>\$ 66,904</u>	<u>\$ 56,062</u>
Less:		
Earned Revenues, Federal (Note 6)	46	109
Earned Revenues, Non Federal (Note 6)	22,792	17,690
Total Earned Revenues (Note 6)	<u>\$ 22,838</u>	<u>\$ 17,799</u>
NET COST OF OPERATIONS	<u><u>\$ 44,066</u></u>	<u><u>\$ 38,263</u></u>

The accompanying notes are an integral part of these statements.

Environmental Protection Agency
FIFRA
Statement of Changes in Net Position
For the Years Ended September 30, 2003 and 2002
(Dollars in Thousands)

	Cumulative Results of Operations FY 2003	Cumulative Results of Operations FY 2002
Budgetary Financing Sources:		
Net Position, Beginning of the year	\$ (841)	\$ 1,689
Income from Other Appropriations (Note 5)	41,578	34,641
Total Budgetary Financing Sources	\$ <u>41,578</u>	\$ <u>34,641</u>
Other Financing Sources:		
Imputed Financing Sources	1,215	1,092
Total Other Financing Sources	\$ <u>1,215</u>	\$ <u>1,092</u>
Net Cost of Operations	(44,066)	(38,263)
Net Position - End of Period	\$ <u><u>(2,114)</u></u>	\$ <u><u>(841)</u></u>

The accompanying notes are an integral part of these statements.

Environmental Protection Agency
FIFRA
Statement of Budgetary Resources
For the Years Ended September 30, 2003 and 2002
(Dollars in Thousands)

	FY 2003	FY 2002
BUDGETARY RESOURCES:		
Unobligated Balances, Beginning of Period	\$ 376	1,917
Beginning of Period		
Spending Authority from Offsetting Collections:		
Earned and Collected	22,838	17,802
Receivable from Federal Sources	0	0
Advance Received	216	(1)
Total Spending Authority from Offsetting Collections	\$ 23,054	\$ 17,801
Recoveries of Prior Year Obligations	168	0
Total Budgetary Resources	\$ <u>23,598</u>	<u>19,718</u>
STATUS OF BUDGETARY RESOURCES		
Obligations Incurred:		
Reimbursable	\$ 22,708	\$ 19,342
Unobligated Balances:		
Apportioned	890	376
Total Status of Budgetary Resources	\$ <u>23,598</u>	<u>19,718</u>
RELATIONSHIP OF OBLIGATIONS TO OUTLAYS		
Obligations Incurred, Net	\$ (514)	\$ 1,541
Obligated Balances, Net - Beginning of Period	2,621	1,547
Undelivered Orders	149	(839)
Accounts Payable	(1,053)	(1,782)
Total Outlays	\$ <u>1,203</u>	<u>\$ 467</u>
Disbursements	\$ 24,258	\$ 18,267
Collections	(23,055)	(17,800)
Net Outlays	\$ <u>1,203</u>	<u>\$ 467</u>

The accompanying notes are an integral part of these statements.

Environmental Protection Agency
Statement of Financing
FIFRA
For the Years Ended September 30, 2003 and 2002
(Dollars in Thousands)

RESOURCES USED TO FINANCE ACTIVITIES:	FY2003	FY 2002
Budgetary Resources Obligated		
Obligations Incurred	\$ 22,708	\$ 19,342
Less: Spending authority from offsetting collections and recoveries	<u>(23,222)</u>	<u>(17,801)</u>
Obligations net of offsetting collections and recoveries	(514)	1,541
Other Resources		
Imputed financing sources	1,215	1,092
Income from Other Appropriations (Note 5)	<u>41,578</u>	<u>34,641</u>
Net other resources used to finance activities	<u>42,793</u>	<u>35,733</u>
 Total Resources Used To Finance Activities	 \$ <u>42,279</u>	 \$ <u>37,274</u>
 RESOURCES USED TO FINANCE ITEMS NOT PART OF NET COST OF OPERATIONS		
Change in budgetary resources obligated for goods	\$ 1,343	\$ 1,033
Resources that fund expenses recognized in prior periods (Notes 4 and 7)	<u>0</u>	<u>(44)</u>
 Total Resources Used to Finance Items Not Part of the Net Cost of Operations	 <u>1,343</u>	 <u>989</u>
 Total Resources Used to Finance the Net Cost of Operations	 \$ <u>43,622</u>	 \$ <u>38,263</u>
 COMPONENTS OF THE NET COST OF OPERATIONS THAT WILL NOT REQUIRE OR GENERATE RESOURCES IN CURRENT PERIOD		
Component Requiring Resources in Future Periods:		
Increase in Annual Leave Liability (Notes 4 and 7)	\$ 444	\$ 0
Component not Requiring Resources:		
Expenses not Requiring Budgetary Resources	<u>0</u>	<u>0</u>
 Total Components of Net Cost of Operations That Will Not Require or Generate Resources in the Current Period	 \$ <u>444</u>	 \$ <u>0</u>
 Net Cost of Operations	 \$ <u><u>44,066</u></u>	 \$ <u><u>38,263</u></u>

The accompanying notes are an integral part of these statements.

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

Note 1. Summary of Significant Accounting Policies:

A. Basis of Presentation

These financial statements have been prepared to report the financial position and results of operations of the Environmental Protection Agency (EPA) for the Reregistration and Expedited Processing (FIFRA) Revolving Fund as required by the Chief Financial Officers Act of 1990. The reports have been prepared from the books and records of EPA in accordance with "Form and Content for Agency Financial Statements," specified by the Office of Management and Budget (OMB) in Bulletin 01-09 and EPA's accounting policies which are summarized in this note. These statements are therefore different from the financial reports also prepared by EPA pursuant to OMB directives that are used to monitor and control EPA's use of budgetary resources.

B. Reporting Entity

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

FIFRA was authorized in 1988 by amendments to the Federal Insecticide, Fungicide and Rodenticide Act. The 1988 amendments mandated the accelerated reregistration of all products registered prior to November 1, 1984. Congress authorized the collection of fees to supplement appropriations to fund re-registration and to fund expedited processing of pesticides. FIFRA also includes provisions for the registration of new pesticides, 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, however, pay for these activities. The FIFRA Revolving Fund is accounted for under Treasury symbol number 4310.

FIFRA may charge some administrative costs directly to the fund and charge the remainder of the

administrative costs to Agencywide appropriations. The costs funded by Agencywide appropriations for FY 2003 and FY 2002 were \$41,578 thousand and \$34,641 thousand, respectively. These amounts were included as Income from Other Appropriations on the Statements of Changes in Net Position and Financing and as Expenses from Other Appropriations on the Statements of Net Cost for FY 2003 and 2002.

C. Budgets and Budgetary Accounting

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

D. Basis of Accounting

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

E. Revenues and Other Financing Sources

For FY 2003 and 2002, FIFRA received funding from fees collected for registration, re-registration, and monitoring of pesticides and from interest collected on investments in U.S. Government securities. However, at this time the Agency's authority to collect Reregistration Maintenance Fees has not been extended past September 30, 2003. For FY 2003 and 2002 revenues were recognized from fee collections to the extent that expenses are incurred during the fiscal year.

F. Funds with the Treasury

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

G. 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. Accounts Receivable and Interest Receivable

FIFRA receivables are mainly for interest receivable on investments.

I. Advances and Prepayments

Advances and prepayments represent funds advanced or prepaid to other entities both internal and external to the Agency for which an appropriation expenditure has not yet occurred.

J. Property, Plant and Equipment

Purchases of EPA-held and contractor-held personal equipment are capitalized if the equipment is valued at \$25 thousand or more and has an estimated useful life of at least two years. Depreciation is taken on a modified straight-line basis over a period of six years depreciating 10% the first and sixth years, and 20% in years two through five.

EPA shows property, plant and equipment at net of depreciation on its audited financial statements. FIFRA property, plant and equipment is fully depreciated thus the net of depreciation value is zero. Since EPA shows its property, plant and equipment at net value and the net value for FIFRA property, plant and equipment is zero, EPA does not show an amount for FIFRA property, plant and equipment on its balance sheet.

K. Liabilities

Liabilities represent the amount of monies or other resources that are likely to be paid by EPA as the result of a transaction or event that has already occurred. However, no liability can be paid by EPA without an appropriation or other collection of revenue for services provided. Liabilities for which an appropriation has not been enacted are classified as unfunded liabilities and there is

no certainty that the appropriations will be enacted. For FIFRA, liabilities are liquidated from fee receipts and interest earnings, since FIFRA receives no appropriation. Liabilities of EPA, arising from other than contracts, can be abrogated by the Government acting in its sovereign capacity.

L. Annual, Sick and Other Leave

Annual, sick and other leave is expensed as taken during the fiscal year. Sick and other leave earned but not taken as of the end of the fiscal year is accrued as an unfunded liability. Accrued unfunded annual leave is included in the Balance Sheet as a component of "Other Liabilities, non-Federal." As of September 30, 2003 and 2002, the unfunded annual leave liability for FIFRA was \$2,479 thousand and \$2,035 thousand, respectively. The difference in the year-end accruals for unfunded annual leave is reported as part of "Costs-With the Public" in the Statement of Net Cost.

M. Retirement Plan

EPA's employees participate in either the Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS). The Agency makes contributions to the retirement plans equal to 8.51% and 10.7% of base pay to CSRS and FERS, respectively.

On January 1, 1987, the Federal Employees Retirement System (FERS) went into effect pursuant to Public Law 99-335. Most employees hired after December 31, 1983, are automatically covered by FERS and Social Security. Employees hired prior to January 1, 1984, were allowed to either join FERS and Social Security or remain in CSRS. A primary feature of FERS is that it offers a savings plan to EPA employees which automatically contributes 1 percent of pay and matches any employee contribution up to an additional 4 percent of pay. For most employees hired after December 31, 1983, EPA also contributes the employer's matching share for Social Security.

With the issuance of "Accounting for Liabilities of the Federal Government" (SFFAS-5), accounting and reporting standards were established for liabilities relating to the Federal employee benefit programs (Retirement, Health Benefits and Life Insurance). SFFAS-5 requires employing agencies to recognize the cost of pensions and other retirement benefits during their employees' active years of service. SFFAS-5 requires that the Office of Personnel Management, as administrator of the CSRS, the FERS, the Federal Employees Health Benefits Program, and the Federal Employees Group Life Insurance Program, provide EPA with the 'cost factors' to compute EPA's liability for each program.

Note 2. Fund Balances with Treasury:

		FY 2003	FY 2002
Revolving Funds:	Entity Assets	<u>\$ 1,797</u>	<u>\$ 2,999</u>
	Non-Entity Assets	<u>\$ 0</u>	<u>\$ 0</u>

Status of Funds:

	FY 2003	FY 2002
Unobligated - Available	\$ 890	\$ 376
Unobligated - Unavailable	3	0
Obligated but not yet Disbursed	<u>904</u>	<u>2,623</u>
Totals	\$ <u>1,797</u>	\$ <u>2,999</u>

The funds available for obligation may be apportioned by the OMB for new obligations at the beginning of the following FY. Funds unavailable for obligation offset unamortized discount on investments.

For FY 2003 and 2002, no differences existed between Treasury's accounts and EPA's general ledger for FIFRA's fund balances with Treasury.

Note 3. Other Liabilities:

	<u>FY 2003</u>	<u>FY 2002</u>
Other Intragovernmental Liabilities - Covered by Budgetary Resources		
Employer Contributions - Payroll	\$ <u>153</u>	\$ <u>274</u>
Total	\$ <u><u>153</u></u>	\$ <u><u>274</u></u>
Other Non-Federal Liabilities - Covered by Budgetary Resources		
Advances to non-Federal Entities	\$ <u>219</u>	\$ <u>4</u>

Note 4. Payroll and Benefits Payable, non-Federal:

	<u>FY 2003</u>	<u>FY 2002</u>
Covered by Budgetary Resources		
Accrued Payroll Payable to Employees	\$ 458	\$ 767
Withholdings Payable	333	596
Thrift Savings Plan Benefits Payable	<u>22</u>	\$ <u>38</u>
Total	\$ <u><u>813</u></u>	\$ <u><u>1,401</u></u>
Not Covered by Budgetary Resources		
Unfunded Annual Leave Liability	\$ <u>2,479</u>	\$ <u>2,035</u>

At various periods throughout FY 2002 and 2003, employees with their associated payroll costs were transferred from the FIFRA fund to the Environmental Programs and Management (EPM) appropriation. (See graph in Note 5 below showing trend of hours charged per month to the FIFRA fund for FY 2002 and 2003.) These employees were transferred in order to keep FIFRA's obligations and disbursements within budgetary and cash limits. When resources became available, the employees charging to FIFRA increased in order to utilize resources as much as possible. The Agency expects that the practice of transferring employees when FIFRA's resources are low, and restoring employees when funds become available, will continue throughout fiscal year 2004 and probably beyond that period.

This process has led to some variation between year-end liabilities. The liabilities covered by budgetary resources (both intragovernmental and non-Federal) represent unpaid payroll and benefits at year-end. As of September 30, 2003 and 2002, about 350 and 290 employees, respectively, were charged to FIFRA. As of September 30, 2003 and 2002, these liabilities were \$153 thousand and \$813 thousand for employer contributions and accrued funded payroll and benefits, as compared to FY 2002's balances of \$274 thousand and \$1,401 thousand respectively. While the number of days unpaid as of the end of FY 2003 were less than half than FY 2002's yearend, the liabilities did not decrease proportionally because of the increase in the number of employees.

In contrast, the unfunded annual leave liability is a longer term liability than the funded liabilities. At various periods throughout FY 2002 and 2003, approximately 350 employees in total have been under FIFRA's accountability. Therefore both the September 30, 2003 and 2002 liability balances for unfunded annual leave were accrued to cover these 350 employees for a total of \$2,479 thousand and \$2,035 thousand, respectively. The increase in the total liability is due to overall increases in both average salary and outstanding annual leave hours for FIFRA employees.

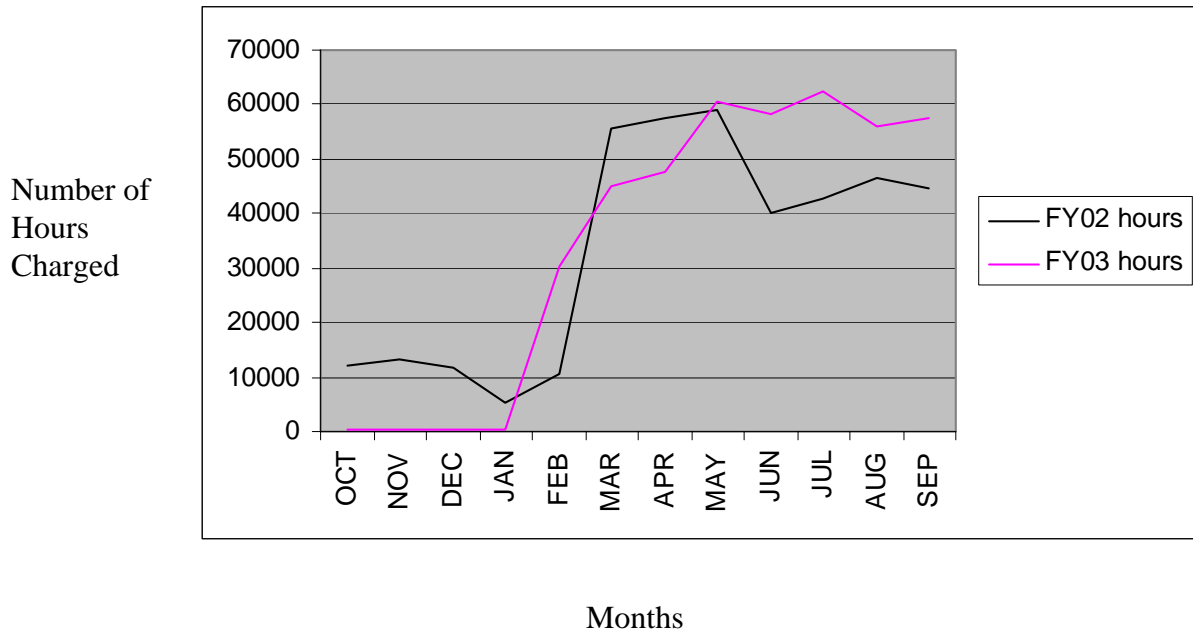
Note 5. Income and Expenses from Other Appropriations:

The Statement of Net Cost reports program costs that include the full costs of the program outputs and consist of the direct costs and all other costs that can be directly traced, assigned on a cause and effect basis, or reasonably allocated to program outputs.

During FY 2003 and 2002, EPA had two appropriations which funded a variety of programmatic and non-programmatic activities across the Agency, subject to statutory requirements. The EPM appropriation was created to fund personnel compensation and benefits, travel, procurement, and contract activities. Transfers of employees from FIFRA to EPM at various times during these years (see Note 4 above) resulted in an increase in payroll expenses in EPM, and these costs financed by EPM are reflected as an increase in the Expenses from Other Appropriations on the Statement of Net Cost. The increased financing from EPM is reported on the Statement of Changes in Net Position as Income from Other Appropriations.

In terms of hours charged to FIFRA each month, the transfers of employees and their associated costs during FY 2002 and 2003 are shown below. Note that a decrease in hours charged to FIFRA normally signifies an increase in EPM's payroll costs, and vice versa.

FIFRA Payroll Hours per Month of FY 2002 and 2003



All of the expenses from EPM were distributed among EPA’s two Reporting Entities: Superfund and All Other (includes FIFRA). This distribution is calculated using a combination of specific identification of expenses to Reporting Entities, and a weighted average that distributes expenses proportionately to total programmatic expenses. As illustrated below, this estimate does not impact the FIFRA’s Net Position.

	<u>Income from Other Appropriations</u>	<u>Expenses from Other Appropriations</u>	<u>Net Effect</u>
FY 2003	<u>\$41,578</u>	<u>\$ 41,578</u>	<u>\$ 0</u>
FY 2002	<u>\$34,641</u>	<u>\$ 34,641</u>	<u>\$ 0</u>

Note 6. Exchange Revenues, Statement of Net Cost

For FY 2003, the exchange revenues reported on the Statement of Net Cost are separated into Federal and non-Federal portions.

Note 7. Change in Annual Leave Liability, Statement of Financing

The annual leave liability increased by \$444 thousand in FY 2003, but decreased by \$44 thousand in FY 2002. The FY 2003 increase was reported under the section entitled “Components Requiring Resources in Future Periods.” In accordance with instructions on OMB’s Form and Content Bulletin No. 01-09, the decrease was reported on the FY 2002 Statement of Financing as “Resources that fund expenses recognized in prior periods.” Also see Note 4 (Payroll and Benefits Payable) for detail on the unfunded annual leave liability.

Agency's Response to the Draft Report



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

APR 12 2004

OFFICE OF
PREVENTION, PESTICIDES AND
TOXIC SUBSTANCES

MEMORANDUM

SUBJECT: Response to Draft Audit Report
Fiscal 2003 and 2002 Financial Statements for Pesticides
Reregistration and Expedited Processing Fund 2004-1-000XX

FROM: Jim Jones, Director *[Signature]*
Office Of Pesticide Programs (7501C)

THRU: Susan Hazen *[Signature]*
Acting Assistant Administrator for Prevention
Pesticides and Toxic Substances (7101)

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

The Office of Pesticide Programs has reviewed the draft audit report captioned above. We concur with the recommendations developed for performance measure number three - Progress in Reducing the Number of Unreviewed, Required Reregistration Studies - as follows:

Recommendation #1 - In 2003 OPP moved to a new information system, OPPIN. The automated reporting functions for the status of studies report was not available until November 24, 2003. OPP agrees to disclose that the information in performance measure three is based upon data as of November 24, 2003.

Recommendation #2 - In 2003 OPP moved to a new information system, OPPIN. In converting to OPPIN, the Agency cleaned up records used to prepare the annual status of studies report. Duplicates as well as bad and / or erroneous data were removed from the data base, resulting in a lower total number of studies received. OPP has a high degree of confidence in the new OPPIN database, which will be used from now on to generate the annual status of studies reports. OPP agrees to disclose this information.

If there are any questions concerning this information contact Ed Setren (703-305-5927)

cc: P. Keitt, M. Monell, J. Kearns, D. Weik, D. Edwards, C. Stangel, E. Setren

Internet Address (URL) • <http://www.epa.gov>
Recycled/Recyclable • Printed with Vegetable Oil Based Inks on Recycled Paper (Minimum 20% Postconsumer)

Distribution

Associate Assistant Administrator (7101M)

Comptroller (2731A)

Agency Followup Official (the CFO) (2710A)

Deputy Chief Financial Officer (2710A)

Agency Audit Followup Coordinator (2724A)

Director, Office of Pesticide Programs (7501C)

Director, Biopesticides and Pollution Prevention Division (7511C)

Director, Special Review and Reregistration Division (7508C)

Director, Registration Division (7505C)

Director, Antimicrobials Division (7510C)