



OFFICE OF INSPECTOR GENERAL

Catalyst for Improving the Environment

Audit Report

Fiscal Year 2006 and 2005 Financial Statements for the Pesticides Reregistration and Expedited Processing Fund

Report No. 2007-1-00070

May 30, 2007

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Abbreviations

EPA	U.S. Environmental Protection Agency
EPM	Environmental Programs and Management
FIFRA	Federal Insecticide, Fungicide, and Rodenticide Act
FMFIA	Federal Managers' Financial Integrity Act
IFMS	Integrated Financial Management System
OIG	Office of Inspector General
OMB	Office of Management and Budget
SFFAS	Statement of Federal Financial Accounting Standards
WFC	Washington Finance Center



At a Glance

Catalyst for Improving the Environment

Why We Did This Audit

The Food Quality Protection Act requires that we perform an annual audit of the Pesticides Reregistration and Expedited Processing Fund (known as FIFRA) financial statements.

Background

The U.S. 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 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.

For further information, contact our Office of Congressional and Public Liaison at (202) 566-2391.

To view the full report, click on the following link:
www.epa.gov/oig/reports/2007/20070530-2007-1-00070.pdf

Fiscal Year 2006 and 2005 Financial Statements for the Pesticides Reregistration and Expedited Processing Fund

EPA Receives Unqualified Opinion

We rendered an unqualified, or clean, opinion on EPA's Pesticides Reregistration and Expedited Processing Fund Financial Statements for fiscal years 2006 and 2005, meaning that they were fairly presented and free of material misstatement.

Internal Control Reportable Conditions Noted

We noted the following two reportable conditions:

- EPA materially understated the FIFRA payroll unfunded leave accrual and related expenses reported in the draft financial statements for fiscal year 2006. The Agency's practice of transferring employees and related expenses and liabilities from FIFRA to Environmental Programs and Management (EPM) created the situation, which led to the misstatement. Just prior to year-end, the Agency transferred a significant number of employees from FIFRA to EPM, decreasing the base upon which the accrual was calculated, and leading directly to the misstatement. As a result, FIFRA liabilities and related expenses were understated by \$1,964,312 in the draft financial statements.
- EPA's Washington Finance Center recorded adjustments to entries in the Integrated Financial Management System, such as schedules of collections, that were not supported by sufficient documentation.

Compliance With Laws and Regulations Noted

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. We did not identify any noncompliances that would result in a material misstatement to the audited financial statements.

Agency Comments and Office of Inspector General Evaluation

In a memorandum dated May 10, 2007, the Office of the Chief Financial Officer and the Office of Prevention, Pesticides, and Toxic Substances responded to our draft report.



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

OFFICE OF
INSPECTOR GENERAL

May 30, 2007

MEMORANDUM

SUBJECT: Fiscal Year 2006 and 2005 Financial Statements for the Pesticides Reregistration and Expedited Processing Fund
Report No. 2007-1-00070

FROM: Melissa M. Heist *Melissa M. Heist*
Assistant Inspector General for Audit

TO: James B. Gulliford
Assistant Administrator for Prevention,
Pesticides, and Toxic Substances

Lyons Gray
Chief Financial Officer

This is our report on the audit of the U.S. Environmental Protection Agency's (EPA's) Fiscal Year 2006 and 2005 financial statements for the Pesticides Reregistration and Expedited Processing Fund, conducted by the EPA Office of Inspector General (OIG). This report contains findings that describe the problems the OIG has identified and corrective actions the OIG recommends. The report represents the opinion of the OIG and does not necessarily represent the final EPA position. Final determinations on matters in this report will be made by EPA managers in accordance with established audit resolution procedures.

The estimated cost of this report – calculated by multiplying the project's staff days by the applicable daily full cost billing rates in effect at the time – is \$274,000.

Action Required

In accordance with EPA Manual 2750, you are required to provide a written response to this report within 90 calendar days of the date of this report. You should include a corrective action plan for each recommendation that includes milestone dates.

If you or your staff have any questions regarding this report, please contact me at (202) 566-0899 or heist.melissa@epa.gov, or Paul Curtis at (202) 566-2523 or curtis.paul@epa.gov.

Table of Contents

Inspector General's Report on the Fiscal Year 2006 and 2005 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	5
Prior Audit Coverage.....	5
Agency Response and OIG Evaluation	6

Attachments

1 Reportable Conditions.....	7
Misstatement of FIFRA Payroll Unfunded Leave	8
Lack of Supporting Documentation for FIFRA Collections Recorded in IFMS....	10
2 Status of Recommendations and Potential Monetary Benefits.....	11

Appendices

- A Fiscal Year 2006 and 2005 FIFRA Financial Statements**
- B Full Text of Agency Response**
- C Distribution**

Inspector General's Report on the Fiscal Year 2006 and 2005 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, 2006 and 2005, 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 the U.S. 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 No. 06-03, *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, 2006 and 2005, in accordance with accounting principles generally accepted in the United States of America.

Evaluation of Internal Controls

As defined by OMB Bulletin No. 06-03, 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 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, regulations and Government-wide policies identified by OMB that could have a direct and material effect on the financial statements.

In planning and performing our audit, we considered EPA's internal controls over FIFRA financial reporting by obtaining an understanding of the Agency's internal controls. We determined whether internal controls have been placed in operation, assessing control risk, and performing tests of controls in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin No. 06-03. 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 controls related to performance measures presented in the Management's 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. 06-03. Our procedures were not designed to provide assurance on internal controls over reported performance measures and, accordingly, we do not express an opinion on internal controls.

Material Weaknesses

Material weaknesses, as defined by OMB Bulletin No. 06-03, are reportable conditions in which the design or operation of the internal control does not reduce to a relatively low level the risk that errors, fraud, or noncompliance in amounts that would be material in relation to the financial statements being audited, or material to a performance measure or aggregation of related performance measures, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted certain matters discussed below involving operations that we consider to be reportable conditions, although we do not believe they are material weaknesses.

Reportable Conditions

OMB Bulletin No. 06-03 defines 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 controls that could adversely affect the organization's ability to meet the objectives defined on the previous page. For fiscal year 2006, we identified two reportable conditions:

Misstatement of FIFRA Payroll Unfunded Leave

EPA materially understated the FIFRA payroll unfunded leave accrual and related expenses reported in the draft financial statements for fiscal year 2006. The Statement of Federal Financial Accounting Standards (SFFAS) No. 5, *Accounting for Liabilities of the Federal Government*, states "liabilities shall be recognized when they are incurred regardless of whether they are covered by available budgetary resources." The Agency's practice of transferring employees and related expenses and liabilities from FIFRA to Environmental Programs and Management (EPM) for budgetary reasons created the situation, which led to the misstatement. The accrual is calculated using the total number of FIFRA employees multiplied by their hourly rates and accrued leave balances. Just prior to year-end, the Agency transferred a significant number of employees from FIFRA to EPM, decreasing the base upon which the accrual was calculated, and leading directly to the misstatement. As a result, FIFRA liabilities and related expenses were understated by \$1,964,312 in the draft financial statements. Such material misstatements could have impacted the opinion on the financial statements and reliance on reported FIFRA financial information. Correcting misstatements also contributes to delays and the increased cost of audits.

Lack of Supporting Documentation for FIFRA Collections Recorded in IFMS

For fiscal year 2006, we identified a weakness in the Agency's documentation of adjustments to the Integrated Financial Management System (IFMS) entries. During our analysis of FIFRA collections recorded at EPA's Washington Finance Center (WFC), we found seven adjustments to entries in IFMS totaling \$1,045,600 that were not supported by sufficient documentation, such as schedules of collections. These entries also did not contain evidence of supervisory review or approval on the adjustments. EPA

Comptroller Policy Announcement 93-02, *Policies for Documenting Agency Financial Transactions*, requires that all financial transactions recorded in the accounting system be supported by adequate source documentation that is easily accessible. These requirements apply to transactions initially entered into IFMS and to adjustments made to the entries. WFC had no procedures in place to document adjustments to IFMS entries. Inputting adjusting entries into the Agency's accounting system without adequate documentation increases the risk of fraud, waste, and abuse by increasing the possibility that unauthorized or inaccurate information is entered.

In February 2006, the Agency began implementing several corrective actions to address the lack of documentation to support adjustments for collections recorded in IFMS. Since substantially all FIFRA collections occurred prior to WFC's change in policy, we will follow up on the implementation of the corrective actions during the fiscal year 2007 financial statement audits.

We have reported less significant matters involving internal controls in the form of position papers during the course of the audit. We will not issue a separate management letter.

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

OMB Bulletin No. 06-03 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 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 Agency's financial statements are free of 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 Pesticide Program included comparing the overview information with information in EPA's principal financial statements for consistency. 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 the tolerance performance measure and the five reregistration performance measures listed in Management's Overview and Analysis of the Pesticides Program. We did not note any significant discrepancies in these measures.

Prior Audit Coverage

During previous financial or financial-related audits, we reported the following reportable conditions:

- We identified a weakness in the Agency's documentation of adjustments to the IFMS entries.
- We could not assess the adequacy of IFMS automated controls.
- We identified a weakness in the Agency's preparation and quality control of the financial statements and footnotes.

The Agency began corrective action to improve documentation of adjusting and correcting entries in IFMS. WFC updated its procedures to include maintaining adequate source documentation when adjusting and correcting entries are made to transactions already entered in IFMS. WFC staff will include an adjustment control sheet to document the reason for the adjustments and corrections. In addition, a separate staff person will be assigned to review and approve the transactions (*Fiscal 2005 and 2004 (restated) Financial Statements for the Pesticide Registration Fund*, Audit Report 2007-1-00002).

EPA has made progress toward replacing IFMS. However, until EPA implements the planned replacement automated accounting system that addresses past issues, we will continue to disclose a reportable condition concerning documentation of the current accounting system and its automated application processing controls (*Audit of EPA's Fiscal 2006 and 2005 Consolidated Financial Statements*, Audit Report 2007-1-00019). We continue to find weaknesses in the Agency's preparation and quality control of the financial statements and footnotes. See Reportable Conditions in Attachment 1, "Misstatement of FIFRA Payroll Unfunded Leave."

Agency Response and OIG Evaluation

In a memorandum dated May 10, 2007, the Office of the Chief Financial Officer and the Office of Prevention, Pesticides, and Toxic Substances responded to our draft report.

The rationale for our conclusions and a summary of the Agency comments are included in the appropriate sections of this report. The Agency's complete response is included in Appendix B to this report.

This report is intended solely for the information and use of the management of EPA, OMB, and Congress, and is not intended to be and should not be used by anyone other than these specified parties.



Paul C. Curtis
Director, Financial Statement Audits
Office of Inspector General
U.S. Environmental Protection Agency
May 16, 2007

Reportable Conditions

Table of Contents

1 - Misstatement of FIFRA Payroll Unfunded Leave	8
2 - Lack of Supporting Documentation for FIFRA Collections Recorded in IFMS.....	10

1 - Misstatement of FIFRA Payroll Unfunded Leave

EPA materially understated the FIFRA payroll unfunded leave accrual and related expenses reported in the draft financial statements for fiscal year 2006. SFFAS No. 5, *Accounting for Liabilities of the Federal Government*, states “liabilities shall be recognized when they are incurred regardless of whether they are covered by available budgetary resources.” The Agency’s practice of transferring employees and related expenses and liabilities from FIFRA to EPM for budgetary reasons created the situation, which led to the misstatement. The accrual is calculated using the total number of FIFRA employees multiplied by their hourly rates and accrued leave balances. Just prior to year-end, the Agency transferred a significant number of employees from FIFRA to EPM, decreasing the base upon which the accrual was calculated, and leading directly to the misstatement. As a result, FIFRA liabilities and related expenses were understated by \$1,964,312 in the draft financial statements. Such material misstatements could have impacted the opinion on the financial statements and reliance on reported FIFRA financial information. Correcting misstatements also contributes to delays and the increased cost of audits.

The Appropriations Act gives EPA the authority to use EPM for “a broad range of abatement, prevention, and compliance activities, and personnel compensation, benefits, travel, and expenses for all programs of the Agency” SFFAS No. 5 states “liabilities shall be recognized when they are incurred regardless of whether they are covered by available budgetary resources.” The Statement also directs that liabilities arising from transactions should be recognized for the unpaid amounts due as of the reporting date. OMB Circular No. 136, *Financial Reporting Requirements*, further classifies liabilities of Federal agencies as liabilities covered or not covered by budgetary resources (e.g., unfunded).

EPA began the practice of moving payroll expenses from FIFRA to the EPM in fiscal year 2000. Whenever FIFRA resources were low, the Agency would transfer employees to EPM in order to keep FIFRA obligations and disbursements within budgetary and cash limits. Subsequently, after adjusting the fee rates, FIFRA had sufficient funds to fund payroll expenses for most of the year, but not the entire fiscal year. However, the Agency continued to move payroll expenses in and out of FIFRA according to its projected budgetary needs. When FIFRA expenses are close to projected amounts, expenses are moved to the EPM, and back to FIFRA as fees are collected the following year. The process of moving employees and the related expenses and liabilities between FIFRA and EPM resulted in a material misstatement in the Agency’s draft financial statements. Finding and correcting such errors also causes delays in issuing the FIFRA financial statements and drives up audit costs. The Agency expects that the practice of transferring payroll expenses between FIFRA and EPM will continue beyond 2006.

The Agency indicated that the Office of Prevention, Pesticides, and Toxic Substances transferred employees out of FIFRA one pay period earlier than in fiscal year 2005, resulting in the decrease in the unfunded leave accrual and expense of \$1,964,312. The Agency calculates accruals and payables in pay period 26. In fiscal year 2006, more than half of the FIFRA staff had already been transferred out, leaving a smaller number on which to calculate the accrual. The accrual is calculated using the total number of FIFRA employees multiplied by their hourly rates and

accrued leave balances. In fiscal year 2005, most of the staff had not been transferred until the end of the fiscal year.

By transferring a significant number of employees from FIFRA to EPM just prior to the end of the year, the Agency unintentionally decreased the base upon which the accrual was calculated. After being brought to its attention, the Agency properly adjusted its unfunded leave accrual and related expenses.

Recommendations

We recommend that the Chief Financial Officer:

- 1-1 Have the Director, Office of Financial Services, provide closer monitoring of the unfunded leave accruals for FIFRA at year-end.
- 1-2 Have the Director, Office of Financial Management, provide closer oversight of the preparation of the financial statements.

Agency Response and OIG Evaluation

The Agency concurred with the recommendations, and indicated that it will take the needed corrective actions.

2 - Lack of Supporting Documentation for FIFRA Collections Recorded in IFMS

During our analysis of FIFRA collections recorded in WFC, we found seven adjustments to entries in IFMS totaling \$1,045,600 that were not supported by sufficient documentation, such as schedules of collections. These entries also did not contain evidence of supervisory review or approval of the adjustments. EPA Comptroller Policy Announcement 93-02, *Policies for Documenting Agency Financial Transactions*, requires that all financial transactions recorded in the accounting system be supported by adequate source documentation that is easily accessible. WFC had no procedures in place to document adjustments to IFMS entries. Inputting adjusting entries into the Agency's accounting system without adequate documentation increases the risk of fraud, waste, and abuse by increasing the possibility that unauthorized or inaccurate information is entered.

EPA Comptroller Policy Announcement 93-02 requires that all financial transactions recorded in the accounting system be supported by adequate source documentation that is easily accessible. These requirements apply to transactions initially entered into IFMS and to adjustments made to the entries. According to Policy Announcement 93-02:

"Adequately documented" means an independent individual competent in accounting and possessing reasonable knowledge of EPA's operations should be able to examine the documentation and reach substantially the same conclusions as the persons who made and/or approved the entry.

"Easily accessible" means the entry should contain sufficient information to identify the supporting documentation, and the documentation should be organized and filed in a manner to facilitate its retrieval.

The Government Accountability Office's *Standards for Internal Controls in the Federal Government* state that "... all transactions and other significant events are to be clearly documented, and the documentation is to be readily available for examination." The Standards also state "qualified and continuous supervision is to be provided to ensure that internal control objectives are achieved."

In February 2006, the Agency began implementing several corrective actions to address the lack of documentation to support adjustments for collections recorded in IFMS. Since substantially all FIFRA collections occurred prior to WFC's change in policy, we will follow up on the implementation of the corrective actions during the fiscal year 2007 financial statement audits. We have no additional recommendations.

Status of Recommendations and Potential Monetary Benefits

RECOMMENDATIONS						POTENTIAL MONETARY BENEFITS (in \$000s)	
Rec. No.	Page No.	Subject	Status ¹	Action Official	Planned Completion Date	Claimed Amount	Agreed To Amount
1-1	9	Have the Director, Office of Financial Services, provide closer monitoring of the unfunded leave accruals for FIFRA at year-end.	O	Chief Financial Officer			
1-2	9	Have the Director, Office of Financial Management, provide closer oversight of the preparation of the financial statements.	O	Chief Financial Officer			

¹ O = recommendation is open with agreed-to corrective actions pending
 C = recommendation is closed with all agreed-to actions completed
 U = recommendation is undecided with resolution efforts in progress

***FYs 2006 and 2005 PESTICIDES REREGISTRATION
and EXPEDITED PROCESSING FUND (FIFRA)
FINANCIAL
STATEMENTS***



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

TABLE OF CONTENTS

Management's Discussion and Analysis	1
Principal Financial Statements	12

Management's Discussion and Analysis

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Agency's Office of Pesticide Programs (OPP) 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 reregistration 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 from tolerances for raw agricultural commodities were deposited to the U.S. Treasury General Fund until 1963 when Congress established the Tolerance Fund.

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 were deposited in the FIFRA Fund. With passage of the Pesticide Registration Improvement Act (PRIA) of 2003, no additional tolerance petition fees will be deposited to the FIFRA Fund through FY 2008.

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 (REDs) by 1997. The legislation allows for various time extensions which can extend the deadline by three years or more. The statutory requirement for the completion of reregistration food-use (REDs) is 2006, in conjunction with the new tolerance reassessment program. For the non-food-use active ingredient REDs, the current legal deadline under PRIA for completion of reregistration is October 3, 2008.

Congress authorized the collection of two kinds of fees to supplement appropriated funds for the reregistration 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 2002 appropriations bill extended authority to collect maintenance fees by one year for the amount of \$17 million and the FY 2003 appropriations extended the authority to collect fees again by one year in the amount of \$21.5 million. Passage of PRIA in FY 2004 extended the authority to collect maintenance fees through FY 2008 (with annual fee amounts at \$26 million in FY 2004; \$27 million in FY 2005-2006; \$21 million in FY 2007; and \$15 million in FY 2008).

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 re-registered, 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

EPA's pesticides and toxics research continues to focus on providing scientifically-valid, cost-effective, and low-burden methods for evaluating risks associated with pesticide manufacture, use, and release into the environment.

EPA's FY 2006 research addressed aggregate and cumulative risks that would result from both agricultural and residential exposures. Special emphasis was placed on addressing exposure and effects science issues regarding children's health, including the special susceptibilities of infants and children exposed to pesticides and other toxins. Results from this work support human and environmental risk assessments.

Specifically, in FY 2006, EPA research results directly influenced regulatory actions and risk assessment decisions for pesticides to which the young are uniquely sensitive. To decrease the potential for exposure in the young, EPA's OPP cancelled or reduced household and agricultural uses of selected cholinesterase-inhibiting pesticides. Additionally, OPP issued a DCI for all registered organophosphates (~30) to collect data on comparative sensitivity of the young. This DCI provided important information for Agency consideration in evaluating the risk to infants and children.

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, risks of pesticides to endangered species, ineffective pesticide containers and containment facilities, 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 enforcement of the pesticide worker protection standards. In FY 2006, 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 2007 and FY 2008 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 newly promulgated pesticide container and containment rules, protection of endangered species from pesticides, and special action chemicals identified by the Office of Pesticide Programs as well as illegal distribution, sale, and advertisement of pesticides and pesticidal services via the Internet.

Highlights and Accomplishments

Tolerance Performance Measures

As mandated by PRIA, no Tolerance fees were collected and deposited to the FIFRA Fund in FY 2006.

Measure: Tolerance re-evaluations.

Results: In FY 2006, EPA completed 1,820 tolerance reassessment decisions. Of these, 1,037 reassessments occurred through reregistration/REDs, 306 were obtained through Tolerance Reassessment Decisions (TREDs), 1 was obtained through a registration decision, 185 were from tolerance revocations, and 291 were from other decisions including inert decisions. At the end of FY 2006, EPA had completed 9,637 tolerance reassessment decisions, addressing over 99% of the 9,721 tolerances that require reassessment.

Reregistration (FIFRA) Financial Perspective

During FY 2006, the Agency's obligations charged against the FIFRA Fund for the cost of the reregistration programs and other authorized pesticide programs were \$26.7 million and 186.7 workyears. Of these amounts, OPP obligated \$24.0 million of this cost and funded the 186.7 workyears.

Appropriated funds are used in addition to FIFRA revolving funds. In FY 2006, approximately \$53.5 million in appropriated funds were obligated for reregistration program activities. The unobligated balance in the Fund at the end of FY 2006 was \$5.6 million.

The Fund has two types of receipts: fee collections and interest earned on investments. Of the \$26.4 million in FY 2006 receipts, approximately 98% were fee collections.

Reregistration Program (FIFRA) Performance Measures

The following measures support the program's strategic goals of Healthy Communities and Ecosystems as contained in the FY 2006 President's budget.

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

Results: In FY 2006, OPP completed decisions for 83 pesticides including 59 REDs, 4 IREDs, and 19 TREDs. Of the 613 chemical cases (representing 3,822 chemical active ingredients), that initially were subject to reregistration, 3,301 have completed REDs. An additional 229 reregistration cases were voluntarily canceled before EPA invested significant resources in developing REDs. A total of 559 reregistration cases (91%), therefore, had completed the reregistration eligibility decision making process by the end of FY 2006, leaving 54 cases (9%) awaiting such decisions.

Measure 2: Number of products reregistered, canceled, or amended. Over 20,000 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 2006, 169 product reregistration actions, 40 product amendment actions, 297 product cancellation actions, and 0 product suspension actions were completed. Currently, a universe of over 20,250 products are undergoing or have completed product reregistration. The status of those products at the end of FY 2006 was as follows: 2,063 products had been reregistered; 554 product registrations had been amended; 4,672 products were cancelled; 30 products were sent for suspension; and 12,932 products had actions/decisions pending. The Agency's goal in FY 2007 is to complete 545 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. 27,533 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.

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 ingredients included in FY 2006 REDs/TREDs are shown in Tables 1 and 2.

Table 1. Data Call-Ins Issued to Support Product Reregistration for FY 2006 REDs/IREDs:

Case No.	Case Name	Number of Products Covered by the RED ¹	Number of Product Chemistry Studies Required ²	Number of Acute Toxicology Studies Required ³	Number of Efficacy Studies Required
0350	ADBAC	1047	PDCI has not been completed yet	Antimicrobial RED – Acute toxicity batching not completed yet	PDCI has not been completed yet
3003	Aliphatic Alkyl Quarternaries (DDAC)	382	PDCI has not been completed yet	Antimicrobial RED – Acute toxicity batching not completed yet	PDCI has not been completed yet
3004	Aliphatic Solvents	158	31	Acute toxicity batching not completed yet	PDCI has not been completed yet
4006	Alkylbenzene Sulfonates	20	0	Antimicrobial RED – Acute toxicity batching not completed yet	5
2080	Cacodylic Acid	36	31	See footnote below*	0
4023	Chlorine Dioxide	95	PDCI has not been completed yet	Antimicrobial RED – Acute toxicity batching not completed	PDCI has not been completed yet
0649	Copper Compounds II	173	31	Needs batching	0
4025	Copper and Oxides	237	PDCI has not been completed yet	Acute toxicity batching not completed	PDCI has not been completed yet
4026	Copper Salts	38	31	Acute toxicity batching not completed yet	0
0636	Copper Sulfate	127	31	Acute toxicity batching not completed yet	0
2130	Cypermethrin	69	31	Acute toxicity batching not completed yet	PDCI has not been completed yet
0065	Dicamba	448	31	Acute toxicity batching not completed yet	0
0113	Dichloran (DCNA)	25	31	54 (1 batch/8 not batched)	0
0310	Dichlorvos (DDVP)	100	31	258 (20 batches/23 not batched)	PDCI has not been completed yet
0088	Dimethoate	54	31	96 (7 batches/9 not batched)	0
0091	Formetantate HCL (IRED)	6	31	36(6 products not batched)	0
3078	Imazapyr	19	31	Acute toxicity batching not completed yet	0
4049	Inorganic Chlorates (Sodium Chlorate)	58	31	156 (9 batches/17 not batched)	PDCI has not been completed yet
4056	Inorganic Sulfites	9	31	Acute toxicity batching not completed yet	1
3080	Iodine and Iodophor Complexes	67	0	126 (12 batches/9 not batched)	9
0248	Malathion	153	31	Acute toxicity batching not completed yet	PDCI has not been completed yet

Case No.	Case Name	Number of Products Covered by the RED ¹	Number of Product Chemistry Studies Required ²	Number of Acute Toxicology Studies Required ³	Number of Efficacy Studies Required
2365	MCPB and Salts	5	31	24 (1 batch/3 not batched)	0
0576	Metaldehyde	52	31	102(7 batches/10 not batched)	0
2395	Methanearsonic acid, salts (Organic Arsenicals) (MSMA/DSMA/CAMA)	129	See footnote below*	See footnote below*	See footnote below*
0335	Methyl Bromide (RED/TRED)	14	31	Not Applicable	1
2430	MGK 264	653	31	Acute toxicity batching not completed yet	PDCI has not been completed yet
4066	Mineral Bases, Weak (Sodium Carbonate)	4	PDCI has not been completed yet	Antimicrobial RED – Acute toxicity batching not completed yet	PDCI has not been completed yet
2575	2-Phenylphenol and Salts (Orthophenyl Phenol)	118	PDCI has not been completed yet	450 (22 batches/53 not batched)	PDCI has not been completed yet
0128	PCNB	82	31	270 (14 batches/31 not batched)	0
2510	Permethrin	957	31	Acute toxicity batching not completed yet	PDCI has not been completed yet
2525	Piperonyl Butoxide (PBO)	1451	31	Acute toxicity batching not completed yet	PDCI has not been completed yet
3125	Propiconazole	172	31	264 (14 batches/30 not batched)	0
2560	Propylene Oxide (PPO)	3	31	18 (3 not batched)	0
2580	Pyrethrins	1286	31	Acute toxicity batching not completed yet	PDCI has not been completed yet
0421	Resmethrin	232	31	Acute toxicity batching not completed yet	PDCI has not been completed yet
0070	Simazine	44	31	84 (8 batches/6 not batched)	0
2625	TCMTB	27	PDCI has not been completed yet	Antimicrobial RED – Acute toxicity batching not completed yet	PDCI has not been completed yet
2700	Triadimefon	56	31	102 (7 batches/10 not batched)	0
Total		8606			

*Ineligible for reregistration; public comments under consideration. Depending on the Agency's formal response to the public comments, PDCIs may be required for these chemicals.

Special Local Need (SLN) or Section 24(c) products are not included in the acute toxicity batching. These products have a parent product; therefore, acute toxicity data do not need to be generated for these SLN or Section 24(c) products.

¹ 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.

² This column shows the number of product chemistry studies that are required for each product covered by the RED.

³ 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.)

There are special cases where product-specific data call-ins may be required for TREDs, particularly if the Agency believes that adequate product chemistry or acute toxicity data are not currently on file to support the reregistration of the products associated with the TREDs. The Agency is requiring a product-specific data call-in for the following TRED:

Table 2. Data Call-In Issued to Support Product Reregistration for FY 2006 TRED

Case No.	Case Name	Number of Products Covered by the TRED ¹	Number of Product Chemistry Studies Required ²	Number of Acute Toxicology Studies Required ³	Number of Efficacy Studies Required
NA	Triadimenol	7	31	42 (7 products not batched)	0
Total No. of Products		7			

¹ The number of registered products containing a pesticide active ingredient can change over time. The product total that appears in the TRED document (counted when the TRED is signed) may be different than the number of products that EPA is tracking for product reregistration (counted later, when the TRED is issued). This table reflects the final number of products associated with each TRED, as they are being tracked for product reregistration.

² This column shows the number of product chemistry studies that are required for each product covered by the TRED.

³ 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.)

Measure 5: Future Schedule for Reregistrations.

Results: EPA has conducted reregistration in conjunction with tolerance reassessment under FQPA. That law required the Agency to reassess all existing tolerances over a ten year

period to ensure consistency with the new safety standard, and to consider pesticides that appeared 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 Individual Decisions Completed

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

EPA completed the remaining OP IREDs and RED as well as the OP cumulative risk assessment in FY 2006. The OP IREDs are now considered final reregistration eligibility decisions, and OP tolerances have been found to meet the FQPA safety standard (see List 2).

List 2. Fiscal Year 2007 Candidates for Decisions

FY 2007 RED, IRED, and TRED Candidate Pesticides

RED Candidates

2,4 DP	Ethylene oxide (ETO) [TRED completed in FY 2006]
Aldicarb [N-methyl carbamate IRED and RED]	Glutaraldehyde
Aliphatic alcohols	MCCP
Aliphatic esters	Mefluidide
Alkyl trimethylenediamines	Methyl bromide [soil fumigant uses RED; commodity uses TRED & RED completed FY 2006]
Allethrin stereoisomers	Methyldithiocarbamate salts (metam sodium/metam potassium)
4-Aminopyridine	MITC
Antimycin A	Naphthalene salts
Benzoic acid	Octhilinone
Bioban-p-1487	Rotenone [TRED completed in FY 2006]
Bromonitrostyrene	Triclosan (Irgasan)
Chlorflurenol	
Chloropicrin	
Dazomet	
Dikegulac sodium	

The following N-methyl carbamate IREDs will become REDs when the cumulative risk assessment is completed.

Carbaryl

Carbofuran

Formetanate HCl

Oxamyl

**PRINCIPAL
FINANCIAL STATEMENTS**

TABLE OF CONTENTS

Financial Statements

Balance Sheet	14
Statement of Net Cost	15
Statement of Changes in Net Position	16
Statement of Budgetary Resources	17
Statement of Financing	18

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies	19
Note 2. Fund Balances with Treasury	22
Note 3. Other Assets – Advances to Working Capital Fund	22
Note 4. Other Liabilities	22
Note 5. Payroll and Benefits Payable, non-Federal	23
Note 6. Income and Expenses from Other Appropriations	24
Note 7. Exchange Revenues, Statement of Net Cost	25
Note 8. Intragovernmental Costs and Revenue.....	25

**Environmental Protection Agency
FIFRA
Balance Sheet
As of September 30, 2006 and 2005
(Dollars in Thousands)**

	<u>FY 2006</u>	<u>FY 2005</u>
ASSETS		
Intragovernmental		
Fund Balance With Treasury (Note 2)	\$ 8,045	\$ 7,941
Other (Note 3)	558	1,489
Total Intragovernmental	\$ <u>8,603</u>	\$ <u>9,430</u>
Total Assets	\$ <u><u>8,603</u></u>	\$ <u><u>9,430</u></u>
LIABILITIES		
Intragovernmental		
Accounts Payable & Accrued Liabilities	\$ 254	\$ 319
Other (Note 4)	84	226
Total Intragovernmental	\$ <u>338</u>	\$ <u>545</u>
Accounts Payable & Accrued Liabilities	470	88
Payroll & Benefits Payable (Note 5)	3,105	3,292
Other (Note 4)	8,071	8,509
Total Liabilities	\$ <u>11,984</u>	\$ <u>12,434</u>
NET POSITION		
Cumulative Results of Operations	<u>(3,381)</u>	<u>(3,004)</u>
Total Net Position	(3,381)	(3,004)
Total Liabilities and Net Position	\$ <u><u>8,603</u></u>	\$ <u><u>9,430</u></u>

The accompanying notes are an integral part of these statements.

**Environmental Protection Agency
FIFRA
Statement of Net Cost
For the Years Ended September 30, 2006 and 2005
(Dollars in Thousands)**

	<u>FY 2006</u>	<u>FY 2005</u>
COSTS		
Gross Cost (Note 8)	\$ 27,746	\$ 26,063
Expenses from Other Appropriations (Note 6)	49,999	50,511
Total Costs	<u>\$ 77,745</u>	<u>\$ 76,574</u>
Less:		
Earned Revenues, (Notes 7 and 8)	<u>\$ 26,857</u>	<u>\$ 23,854</u>
NET COST OF OPERATIONS (Note 8)	<u><u>\$ 50,888</u></u>	<u><u>\$ 52,720</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, 2006 and 2005
(Dollars in Thousands)**

	<u>FY 2006</u>	<u>FY 2005</u>
Net Position - Beginning of Period	\$ (3,004)	\$ (2,520)
Budgetary Financing Sources:		
Income from Other Appropriations (Note 6)	<u>49,999</u>	<u>50,511</u>
Total Budgetary Financing Sources	\$ <u>49,999</u>	\$ <u>50,511</u>
Other Financing Sources:		
Imputed Financing Sources	<u>512</u>	<u>1,725</u>
Total Other Financing Sources	\$ <u>512</u>	\$ <u>1,725</u>
Net Cost of Operations	(50,888)	(52,720)
Net Change	(377)	(484)
Net Position - End of Period	<u><u>\$ (3,381)</u></u>	<u><u>\$ (3,004)</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, 2006 and 2005
(Dollars in Thousands)**

	<u>FY 2006</u>	<u>FY 2005</u>
BUDGETARY RESOURCES		
Unobligated Balance, Brought Forward, October 1:	\$ 4,986	\$ 2,532
Recoveries of Prior Year Unpaid Obligations	894	101
Spending Authority from Offsetting Collections:		
Earned:		
Collected	26,867	23,857
Change in Unfilled Customer Orders:		
Advance Received	(437)	4,159
Total Budgetary Resources	<u>\$ 32,310</u>	<u>\$ 30,649</u>
STATUS OF BUDGETARY RESOURCES		
Obligations Incurred:		
Reimbursable	\$ 26,694	\$ 25,663
Total Obligations Incurred	26,694	25,663
Unobligated Balances:		
Apportioned	5,616	4,986
Total Status of Budgetary Resources	<u>\$ 32,310</u>	<u>\$ 30,649</u>
CHANGE IN OBLIGATED BALANCE		
Obligated Balance, Net:		
Unpaid Obligations, Brought Forward, October 1	\$ 2,952	\$ 2,348
Total Unpaid Obligated Balance, Net	2,952	2,348
Obligations Incurred, Net	26,694	25,663
Less: Gross Outlays	(26,325)	(24,958)
Less: Recoveries of Prior Year Unpaid Obligations	(894)	(101)
Total, Change in Obligated Balance	2,427	2,952
Obligated Balance, Net, End of Period:		
Unpaid Obligations	2,427	2,952
Total, Unpaid Obligated Balance, Net, End of Period	\$ 2,427	\$ 2,952
NET OUTLAYS		
Net Outlays:		
Gross Outlays	\$ 26,325	\$ 24,958
Less: Offsetting Collections	(26,429)	(28,016)
Total, Net Outlays	<u>\$ (104)</u>	<u>\$ (3,058)</u>

The accompanying notes are an integral part of these statements.

**Environmental Protection Agency
Statement of Financing
FIFRA
For the Years Ended September 30, 2006 and 2005
(Dollars in Thousands)**

	<u>FY 2006</u>	<u>FY 2005</u>
RESOURCES USED TO FINANCE ACTIVITIES:		
Budgetary Resources Obligated		
Obligations Incurred	\$ 26,694	\$ 25,663
Less: Spending Authority from Offsetting		
Collections and Recoveries	<u>(27,323)</u>	<u>(28,117)</u>
Obligations, Net of Offsetting Collections	\$ (629)	\$ (2,454)
Other Resources		
Imputed Financing Sources	\$ 512	\$ 1,725
Income from Other Appropriations (Note 6)	<u>49,999</u>	<u>50,511</u>
Net Other Resources Used to Finance Activities	\$ 50,511	\$ 52,236
Total Resources Used To Finance Activities	\$ 49,882	\$ 49,782
RESOURCES USED TO FINANCE ITEMS NOT PART OF NET COST OF OPERATIONS		
Change in Budgetary Resources Obligated for Goods	\$ 521	\$ 3,069
Resources that Fund Prior Period Expenses	<u>-</u>	<u>(132)</u>
Total Resources Used to Finance Items Not Part of the Net Cost of Operations	\$ 521	\$ 2,937
Total Resources Used to Finance the Net Cost of Operations	\$ 50,403	\$ 52,719
COMPONENTS OF NET COST OF OPERATIONS THAT WILL NOT REQUIRE OR GENERATE RESOURCES IN THE CURRENT PERIOD		
Components Requiring or Generating Resources in Future Periods:		
Increase in Annual Leave Liability (Note 5)	485	-
Components Not Requiring/Generating Resources:		
Expenses Not Requiring Budgetary Resources	<u>-</u>	<u>1</u>
Net Cost of Operations	<u>\$ 50,888</u>	<u>\$ 52,720</u>

The accompanying notes are an integral part of these statements.

Environmental Protection Agency
FIFRA
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 *Financial Reporting Requirements*, Office of Management and Budget (OMB) Circular A-136 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 68X4310.

FIFRA may charge some administrative costs directly to the fund and charge the remainder of the administrative costs to Agency wide appropriations. Costs funded by Agency wide appropriations for FYs 2006 and 2005 were \$49,999 thousand and \$50,511 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 Statement of Net Cost.

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 FYs 2006 and 2005, FIFRA received funding from fees collected for registration, re-registration and from interest collected on investments in U.S. Government securities. However, after September 30, 2002 the Agency no longer has the authority to collect Reregistration Maintenance Fees. For FYs 2006 and 2005 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. 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.

J. Annual, Sick and Other Leave

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

K. Retirement Plan

There are two primary retirement systems for federal employees. Employees hired prior to January 1, 1984, 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, 1983, are automatically covered by FERS and Social Security. Employees hired prior to January 1, 1984, elected to either join FERS and Social Security or remain in CSRS. A primary feature of FERS is that it offers a savings plan to which the Agency automatically contributes one percent of pay and matches any employee contributions up to an additional four percent of pay. The Agency also contributes the employer's matching share for Social Security.

With the issuance of "Accounting for Liabilities of the Federal Government" (SFFAS No.5), 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 employing agencies to 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, 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:

	<u>FY 2006</u>	<u>FY 2005</u>
Revolving Funds: Entity Assets	\$ 8,045	\$ 7,941

Note 3. Other Assets – Advances to Working Capital Fund

FIFRA advances funds to the EPA's Working Capital Fund to pay for computer, postage, and other administrative support services. As of September 30, 2006 and 2005, funds advanced that will be applied to future costs as incurred were \$558 thousand and \$1,489 thousand, respectively.

Note 4. Other Liabilities:

For FYs 2006 and 2005, the Payroll and Benefits Payable, non-Federal, are presented on a separate line of the Balance Sheet and in a separate footnote (see Note 5 below).

	<u>FY 2006</u>	<u>FY 2005</u>
Other Intragovernmental Liabilities - Covered by Budgetary Resources		
Employer Contributions - Payroll	\$ 84	\$ 226
Total	<u>\$ 84</u>	<u>\$ 226</u>
Other Non-Federal Liabilities – Covered by Budgetary Resources		
Advances to Non-Federal Entities	\$ 8,071	8,509
Total	<u>\$ 8,071</u>	<u>8,509</u>

Note 5. Payroll and Benefits Payable, non-Federal:

	<u>FY 2006</u>	<u>FY 2005</u>
Covered by Budgetary Resources		
Accrued Payroll Payable to Employees	\$ 197	\$ 546
Withholdings Payable	176	478
Thrift Savings Plan Benefits Payable	<u>13</u>	<u>34</u>
Total	<u>\$ 386</u>	<u>\$ 1,058</u>
Not Covered by Budgetary Resources		
Unfunded Annual Leave Liability -		
Beginning of the Year	\$ 2,234	\$ 2,367
Unfunded Annual Leave Expense	<u>\$ 485</u>	<u>\$ (133)</u>
Unfunded Annual Leave Liability - End of the Year	<u>\$ 2,719</u>	<u>\$ 2,234</u>

At various periods throughout FYs 2006 and 2005, employees with their associated payroll costs were transferred from the FIFRA fund to the Environmental Programs and Management (EPM) appropriation. (See graph in Note 6 below showing trend of hours charged per month to the FIFRA fund for FYs 2006 and 2005.) 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 FY 2006 and probably beyond that period.

This process has led to variations between the year-end liabilities for FYs 2006 and 2005. The liabilities covered by budgetary resources (both intragovernmental and non-Federal) represent unpaid payroll and benefits at year-end. At the end of FY 2006, 109 employees were charging all or part of their salary and benefits to FIFRA compared to 346 employees for the end of FY 2005. As of September 30, 2006 these liabilities were \$84 thousand and \$386 thousand for employer contributions and accrued funded payroll and benefits, as compared to FY 2005's balances of \$226 thousand and \$1,058 thousand, respectively.

In contrast, the unfunded annual leave liability is a longer term liability than the funded liabilities. At various periods throughout FYs 2006 and 2005, approximately 353 employees in total have been under FIFRA's accountability. During the last pay period of FY 2006 many FIFRA employees had been transferred to EPM so the liability was computed based on the 323 employees charged to FIFRA during the pay period before the last pay period. Therefore, both the September 30, 2006 and 2005 liability balances for unfunded annual leave were accrued to cover the employees charged to FIFRA close to the end of the fiscal year for a total of \$2,719 thousand and \$2,234 thousand, respectively.

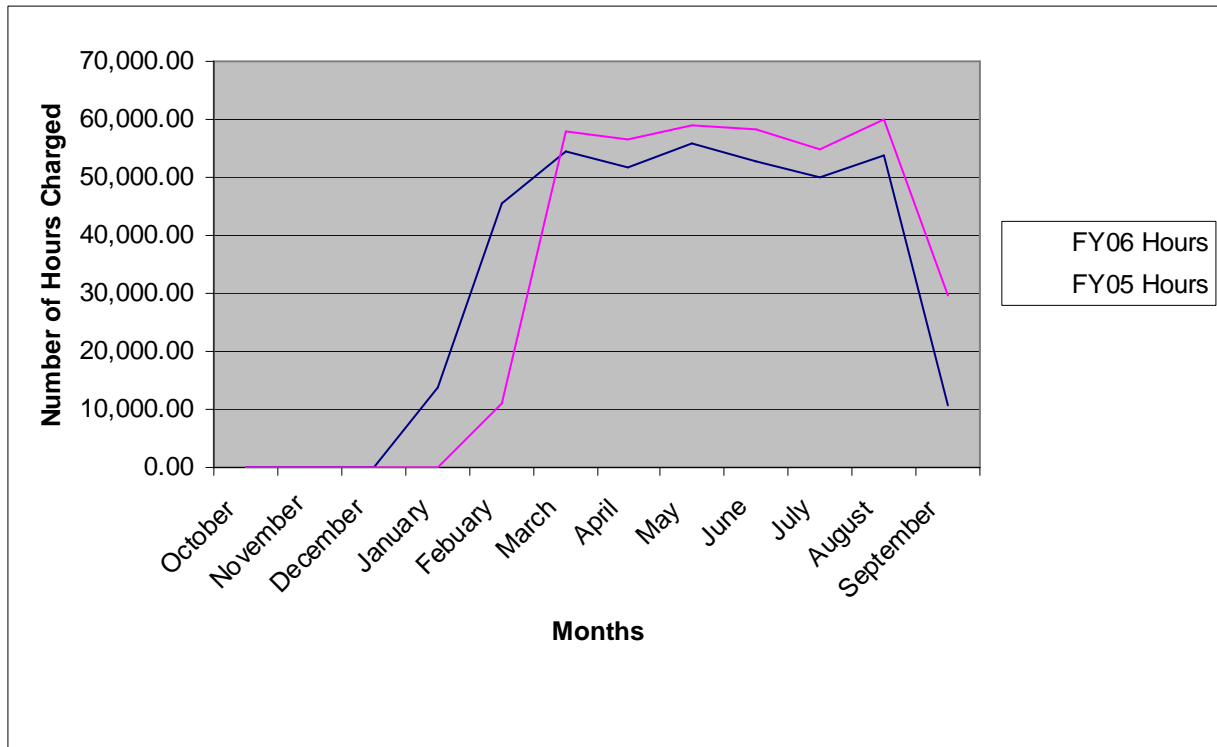
Note 6. Income and Expenses from Other Appropriations:

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

During FYs 2006 and 2005, 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 5 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 FYs 2006 and 2005 are shown below. Note that a decrease in hours charged to FIFRA normally signifies an increase in EPM's payroll costs, and vice versa. In addition, Pesticide was separated from FIFRA starting with FY 2004 and Pesticide has its own set of financial statements.

FIFRA Payroll Hours Per Month



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 2006 \$	49,999	\$	49,999	\$	0
FY 2005 \$	50,511	\$	50,511	\$	0

Note 7. Exchange Revenues, Statement of Net Cost

For FYs 2006 and 2005, the exchange revenues reported on the Statement of Net Cost include both Federal and non-Federal amounts.

Note 8. Intragovernmental Costs and Exchange Revenue

	<u>FY 2006</u>	<u>FY 2005</u>
COSTS:		
Intragovernmental	\$ 6,788	\$ 7,038
With the Public	20,958	19,025
Expenses from Other Appropriations	<u>49,999</u>	<u>50,511</u>
Total Costs	\$ <u>77,745</u>	\$ <u>76,574</u>
REVENUE:		
Intragovernmental	\$ 558	\$ 315
With the Public	<u>26,299</u>	<u>23,539</u>
Total Revenue	\$ <u>26,857</u>	\$ <u>23,854</u>
NET COST OF OPERATIONS	\$ <u>50,888</u>	\$ <u>52,720</u>

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

Full Text of Agency Response

May 10, 2007

MEMORANDUM

SUBJECT: Response to Draft Audit Report on EPA's Fiscal 2006 and 2005 Pesticides Reregistration and Expedited Processing Fund

FROM: James B. Gulliford /s/
Assistant Administrator for Prevention,
Pesticides, and Toxic Substances

Lyons Gray /s/
Chief Financial Officer

TO: Paul C. Curtis
Director, Financial Statement Audits

We appreciate the opportunity to respond to the findings and recommendations made in the "Draft" Audit of the Environmental Protection Agency's (EPA) Fiscal Year 2006 and 2005 Financial Statements for the Pesticides Reregistration and Expedited Processing Fund (known as the FIFRA fund).

We disagree with the OIG's comments stating that the enactment of PRIA enabled FIFRA to have sufficient funds to cover payroll expenses for the entire year (page 8). The two fee mechanisms are separate and they represent two different activities. Unlike PRIA, where fees are collected as applications are received, Section 4(i)(5) of FIFRA mandates the collection of maintenance fees (for existing registrations) by January 15 of each year. OPP sends out the bills to the registrants by December 1 to give them adequate time to submit payment by January 15. Thus the program is faced with insufficient funds to cover the FIFRA Full-time Equivalent (FTE) at the beginning of each fiscal year, necessitating the transfer of FTEs to the Environmental Program Management Appropriation.

Audit Recommendations

We concur with the recommendations in the Draft Report.

1. The Office of Financial Services will develop and implement a procedure that will provide closer monitoring of the unfunded leave accruals for FIFRA.
2. The Office of Financial Management will develop and implement a procedure that will increase oversight over preparation of the financial statements.

If you have any questions concerning the audit response, please contact MelaJo Kubacki, Director, Financial Policy and Planning Staff, at 202-564-3155.

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