



OFFICE OF THE INSPECTOR GENERAL

*Catalyst for Improving the Environment*

## **Audit Report**

# **Fiscal 2004 Financial Statements for the Pesticide Registration Fund**

**Report No. 2005-1-00082**

**May 4, 2005**

## **Abbreviations**

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



# At a Glance

*Catalyst for Improving the Environment*

## Why We Did This Review

The Pesticide Registration Improvement Act requires that we perform an annual audit of the Pesticide Registration Fund (known as PRIA) financial statements and report findings and recommendations resulting from the audit.

## Background

To expedite the registration of certain pesticides, Congress authorized EPA to assess and collect pesticide registration fees. The fees collected are deposited into the Pesticide Registration Fund. The Agency is required to prepare financial statements that present financial information about the Fund.

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/2005/20050504-2005-1-00082.pdf](http://www.epa.gov/oig/reports/2005/20050504-2005-1-00082.pdf)

## ***Fiscal 2004 Financial Statements for the Pesticide Registration Fund***

### **Opinion**

We rendered an unqualified, or clean, opinion on EPA's Pesticides Registration Fund Financial Statements for fiscal 2004, meaning that they were fairly presented and free of material misstatement.

### **Internal Control Reportable Conditions Noted**

We identified the following reportable conditions:

- We could not assess the adequacy of the automated controls.
- EPA needs to improve financial statement preparation.

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

We tested compliance with those laws and regulations that could either materially affect the PRIA 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.

### **What We Recommend**

We recommend that the Director, Reporting and Analysis Staff: (a) ensure that products issued from the office, especially Financial Statements, footnotes, supplemental information, and overviews, are properly reviewed prior to release or submittal for audit; and (b) establish milestone due dates for the PRIA 2005 financial statement audit.



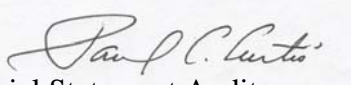
UNITED STATES ENVIRONMENTAL PROTECTION AGENCY  
WASHINGTON, D.C. 20460

OFFICE OF  
INSPECTOR GENERAL

May 4, 2005

**MEMORANDUM**

SUBJECT: Fiscal 2004 Financial Statements for the Pesticide Registration Fund  
Report No. 2005-1-00082

FROM: Paul C. Curtis   
Director, Financial Statement Audits

TO: Susan B. Hazen  
Acting Assistant Administrator for Prevention,  
Pesticides and Toxic Substances (7101M)

Charles E. Johnson  
Chief Financial Officer (2710A)

Attached is our audit report on the fiscal 2004 financial statements for the Pesticide Registration Fund (PRIA). We discussed our findings with your staff and issued a draft 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 Acting 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 Environmental Protection Agency (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 release of this report to the public.

If you or your staff have any questions regarding this report, please contact me at (202) 566-2523, or Meg Bastin of my staff at (513) 487-2366.

Attachment

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# Inspector General's Report on the Fiscal 2004 Financial Statements for the Pesticide Registration Fund

The Administrator  
U.S. Environmental Protection Agency:

We have audited the Pesticide Registration Fund (known as the PRIA Fund) balance sheet as of September 30, 2004, and the related statements of net cost, changes in net position, budgetary resources, and financing for the period from inception (March 23, 2004) to September 30, 2004. 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 No. 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 PRIA fund, as of September 30, 2004, and for the period from inception (March 23, 2004) to September 30, 2004, in accordance with accounting principles generally accepted in the United States of America.

## 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 No. 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 No. 01-02 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 control that could adversely affect the organization's ability to meet the objectives defined above. For fiscal 2004, we identified two reportable conditions, as follows:

- We could not assess the adequacy of the automated controls. As we have previously reported in the Agency-wide Financial Statement and FIFRA Financial Statement audits, 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 identified a weakness in the Agency's preparation and quality control of the Financial Statements and footnotes. The Agency did not have established milestones and did not provide for proper quality control over the financial statement preparation process. The draft statements we received included incomplete line items, amounts that were misclassified, inconsistencies among and within the Financial Statements and footnotes, inaccurate calculations, and material misstatements. Additionally, the Agency double booked the payroll unfunded leave liability, which would have materially misstated the financial statements if not caught by OIG auditors.

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

OMB Bulletin No. 01-02 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**

In accordance with the Pesticide Registration Improvement Act, the Administrator is required to publish a schedule of decision review periods for pesticide registration actions and corresponding registration fees in the Federal Register. Decision time review periods are specified time limits for the Agency to grant or deny pesticide registrations. The Act also requires the OIG to perform an



analysis of the Agency's compliance with decision time review periods. Our analysis of the Agency's compliance with decision time review periods did not identify any non-compliances.

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 PRIA 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 non-compliances 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.

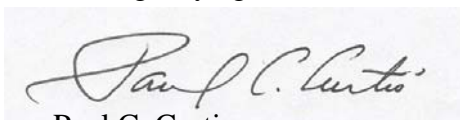
## **Recommendations**

We recommend the Director, Reporting and Analysis Staff, Office of the Chief Financial Officer:

1. Ensure that products issued from the office, especially products that would go outside the Agency, such as the Financial Statements (including the footnotes, supplemental information, and overview), are properly reviewed prior to release or submittal for audit.
2. Establish milestone due dates for the PRIA 2005 financial statement audit.

## **Agency Comments**

The Agency agreed with our comments and recommendations.



Paul C. Curtis  
Director, Financial Statement Audits  
Office of Inspector General  
U.S. Environmental Protection Agency  
February 25, 2005

**FY 2004 PESTICIDE REGISTRATION FUND (PRIA)  
FINANCIAL  
STATEMENTS**



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

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**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.

With passage of the Pesticide Registration Improvement Act (PRIA) of 2003, the pesticide program now administers the newly established Registration Fund. PRIA authorizes the collection of new fees for pesticide registrations. Registration service fees are deposited to the Registration Fund and made available for obligation to the extent provided in appropriation Acts, and are available without fiscal year limitation.

## *Pesticide Registration*

Under the authority of FIFRA and FFDCAs as Amended by the Food Quality Protection Act (FQPA), no person or State can distribute or sell any pesticide that is not registered with the Agency. The pesticide registration program works to decrease the risk to the public from pesticide use through the regulatory review of new pesticides. In 2004, Congress passed the Pesticide Registration Improvement Act (PRIA) of 2003, with deadlines for completion of certain registration actions. As part of the registration program, EPA expedites the registration of reduced risk pesticides, which are generally presumed to pose lower risks to consumers, workers, groundwater, and wildlife. These accelerated pesticide reviews provide an incentive for industry to develop, register, and use lower risk pesticides. Additionally, the availability of these reduced risk pesticides provides alternatives to older, potentially more harmful products currently on the market.

Biological agents are potential weapons that could be exploited by terrorists against the United States. EPA's pesticides antimicrobial program is working to help address this threat. Antimicrobials play an important role in public health and safety. EPA is conducting comprehensive scientific assessments and developing test protocols to determine the safety and efficacy of products used against chemical and biological weapons of mass destruction, and registering products as necessary. EPA is also developing a timeline for prioritizing and implementing the tests. In addition, the Section 18 program provides emergency exemption to any part of FIFRA. This authority is typically used by States on an emergency basis. We have recently used this authority to help with homeland security. Section 18 exemptions have been authorized to help with anthrax and soybean rust.

PRIA established registration service fees for Antimicrobials, Biopesticides and conventional pesticides registration actions. The category of action, the amount of the registration service fee, and the corresponding decision review periods by year are prescribed in the statute. The goal is to create a more predictable evaluation process for affected pesticide decisions, and couple the collection of individual fees with specific decision review periods. The legislation also promotes shorter decision review periods for reduced-risk applications. The

legislation became effective on March 23, 2004, and the collection of registration fees are authorized through FY 2008. In order to help ensure a smooth transition (if PRIA is not re-authorized), PRIA reduces the registration service fees by 40 percent in FY 2009 and then by 70 percent in FY 2010. For any application received after September 30, 2008, but before September 30, 2010, the reduced registration service fee applies, while the decision review periods do not.

In order for a pending or a new application to be deemed complete and subject to the decision review periods, a registrant is required to pay the applicable fee or receive a waiver from the fees. For most applications, the decision review period starts 21 days after submission of the application - provided it includes the applicable fee and all the necessary forms, labeling and documents certifying payment of the fee. The legislation provides fee waivers for certain categories of small businesses, minor uses, IR-4 petitions, and for applications from federal and state agencies, and, in very limited cases, the reduction of fees when the application is withdrawn with little work completed. If the registrant requests a waiver or reduction of the fee, the decision review period will begin when the Agency grants such request or 60 days after receipt of the application. If it is determined that a fee is required and thus the waiver is not granted, the decision review period starts after the fee is collected.

### ***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 2004 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 2004, 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 2004 and FY 2005 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***

#### **Registration Financial Perspective**

During FY 2004, the Agency's obligations charged against the Pesticide Registration Fund for the cost of registration were \$5.0 million and 23.0 workyears (all obligated by the Office of Pesticide Programs).

Appropriated funds are used in addition to Registration funds. In FY 2004, approximately \$39.6 million in appropriated funds were obligated for registration activities. The unobligated balance in the Fund at the end of FY 2004 was \$9.6 million.

The Fund has two types of receipts: fee collections and interest earned on investments. Of the \$14.6 million in FY 2004 receipts, 100% were fee collections.

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

The following measures support the program's strategic goals of Healthy Communities and Ecosystems as contained in the FY 2004 President's budget.

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

*Results: In FY 2004, EPA registered 26 new active ingredients, of which 14 are biopesticides, 2 are antimicrobials, and 10 are conventional pesticides with domestic uses.*

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

*Results: In FY 2004, EPA registered 19 reduced risk pesticides and 1 methyl bromide alternative. Biological pesticides are certain types of pesticides derived from such natural materials as animals, plants, bacteria, and certain minerals. They are usually less toxic and are typically considered safer pesticides than the traditional conventional chemicals; therefore, the*

*14 biopesticides new active ingredients are counted as reduced risk pesticides. For conventional chemicals, there were 5 reduced risk new active ingredients registered this year. One of these actions was also an organophosphate alternative. Conventional pesticides reduced risk determination is granted when compared to the registered alternatives the new product poses less risk. In addition, we registered 1 methyl bromide alternative new active ingredient that has 10 new uses associated with this registration.*

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

*Results: EPA registered 231 new food uses for previously registered active ingredients.*

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

*Results: Included in the new uses registered are 40 reduced-risk, 20 organophosphate alternatives, and 10 methyl bromide alternatives.*

**Reducing Exposure through Human Health Protection Research**

In FY 2004, EPA's research program developed models to estimate exposure and dose. In addition, the Agency refined methods for measuring children's exposures to pesticides and other environmental contaminants to improve exposure and risk assessments. These research results will be used by the Office of Prevention, Pesticides, and Toxic Substances (OPPTS) in the 2006 reassessment of current use pesticides. The research program also provided tools to OPPTS for identifying and assessing key factors influencing farm applicator exposure to agricultural pesticides as well as approaches for evaluating the population-level effects of pesticides on wildlife and aquatic species.

The data and improved understanding(s) gained through this research program will reduce uncertainties associated with 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**

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**Environmental Protection Agency  
PRIA  
Balance Sheet  
As of September 30, 2004  
(Dollars in Thousands)**

		<u>FY 2004</u>
<b>ASSETS</b>		
Intragovernmental		
Fund Balance With Treasury (Note 2)	\$	<u>11,367</u>
Total Intragovernmental	\$	<u>11,367</u>
Property, Plant & Equipment, Net		<u>238</u>
Total Assets	\$	<u><u>11,605</u></u>
<b>LIABILITIES</b>		
Intragovernmental		
Other (Note 3)		<u>32</u>
Total Intragovernmental	\$	<u>32</u>
Accounts Payable & Accrued Liabilities		171
Payroll & Benefits Payable (Note 4)		<u>596</u>
Total Liabilities	\$	<u><u>799</u></u>
<b>NET POSITION</b>		
Cumulative Results of Operations		<u>10,806</u>
Total Net Position		<u>10,806</u>
Total Liabilities and Net Position	\$	<u><u>11,605</u></u>

**The accompanying notes are an integral part of these statements.**

**Environmental Protection Agency  
 PRIA  
 Statement of Net Cost  
 From Inception (March 23, 2004) to September 30, 2004  
 (Dollars in Thousands)**

		<b>FY 2004</b>
<b>COSTS</b>		
Intragovernmental	\$	434
With the Public		3,211
Expenses from Other Appropriations (Note 5)		4,163
Total Costs	\$	7,808
Less:		
Earned Revenues, Federal (Note 6)	\$	
Earned Revenues, Non-Federal (Note 6)		14,634
Total Earned Revenues	\$	14,634
<b>NET COST OF OPERATIONS</b>	<b>\$</b>	<b>(6,826)</b>

**The accompanying notes are an integral part of these statements.**

**Environmental Protection Agency  
PRIA  
Statement of Changes in Net Position  
From Inception (March 23, 2004) to September 30, 2004  
(Dollars in Thousands)**

	<b>FY 2004</b>
<b>Net Position - Beginning of Period</b>	\$ 0
<b>Budgetary Financing Sources:</b>	
Nonexchange Revenue	(19)
Income from Other Appropriations (Note 5)	<u>4,163</u>
Total Budgetary Financing Sources	\$ <u>4,144</u>
<b>Other Financing Sources:</b>	
Imputed Financing Sources	39
Other- Unfunded Annual Leave Transfer (Note 4)	<u>(203)</u>
Total Other Financing Sources	\$ (164)
Net Cost of Operations	<u>6,826</u>
<b>Net Position - End of Period</b>	<u><u>\$ 10,806</u></u>

**The accompanying notes are an integral part of these statements.**

**Environmental Protection Agency  
 PRIA  
 Statement of Budgetary Resources  
 From Inception (March 23, 2004) to September 30, 2004  
 (Dollars in Thousands)**

	<b>FY 2004</b>
<b>BUDGETARY RESOURCES</b>	
Budgetary Authority:	
Appropriations Received	\$ <u>14,615</u>
Total Budgetary Resources	\$ <u><u>14,615</u></u>
<b>STATUS OF BUDGETARY RESOURCES</b>	
Obligations Incurred:	
Direct	\$ 4,994
Unobligated Balances:	
Apportioned	<u>9,621</u>
Total Status of Budgetary Resources	\$ <u><u>14,615</u></u>
<b>RELATIONSHIP OF OBLIGATIONS TO OUTLAYS</b>	
Obligations Incurred, Net	\$ 4,994
Obligated Balances, Net - Beginning of Period	0
Undelivered Orders, Unpaid	(1,380)
Accounts Payable	<u>(366)</u>
Total Outlays	\$ <u><u>3,248</u></u>
Disbursements	\$ <u>3,248</u>
Net Outlays	\$ <u><u>3,248</u></u>

**The accompanying notes are an integral part of these statements.**

**Environmental Protection Agency  
Statement of Financing  
PRIA  
From Inception (March 23, 2004) to September 30, 2004  
(Dollars in Thousands)**

	<b>FY 2004</b>
<b>RESOURCES USED TO FINANCE ACTIVITIES:</b>	
Budgetary Resources Obligated	
Obligations Incurred	\$ 4,994
Other Resources	
Imputed Financing Sources	39
Income from Other Appropriations (Note 5)	<u>4,163</u>
Net Other Resources Used to Finance Activities	\$ 4,202
Total Resources Used To Finance Activities	\$ 9,196
<b>RESOURCES USED TO FINANCE ITEMS NOT PART OF NET COST OF OPERATIONS</b>	
Change in Budgetary Resources Obligated	\$ (1,380)
Resources that Finance Asset Acquisition	<u>(238)</u>
Total Resources Used to Finance Items Not Part of the Net Cost of Operations	\$ (1,618)
Total Resources Used to Finance the Net Cost of Operations	\$ 7,578
<b>COMPONENTS OF NET COST OF OPERATIONS THAT WILL NOT REQUIRE OR GENERATE RESOURCES IN THE CURRENT PERIOD</b>	
Components Requiring or Generating Resources in Future Periods:	
Increase in Annual Leave Liability (Note 4)	\$ 230
Increase in Public Exchange Revenue Receivable	<u>(14,634)</u>
Total Components of Net Cost of Operations that Requires or Generates Resources in the Future	\$ (14,404)
Net Cost of Operations	<u><u>\$ (6,826)</u></u>

**The accompanying notes are an integral part of these statements.**

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**Environmental Protection Agency**  
**PRIA**  
**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 Pesticide Registration Fund (PRIA) as required by the Chief Financial Officers Act of 1990 and the Pesticide Registration Improvement Act (PRIA) of 2003. In the prior years, pesticide registration was included in the FIFRA financial statements. For FY 2004, we prepared the PRIA financial statements separate from FIFRA financial statements. 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.

The PRIA fund is authorized under the Pesticide Registration Improvement Act of 2003, and became effective on March 23, 2004. This Act authorizes EPA to assess and collect pesticide registration service fees on applications submitted to register pesticides covered by this Act, as well as, assess and collect fees to register new active ingredients not listed in the Registration Division 2003 Work Plan of the Office of Pesticide Programs. The PRIA Fund is accounted for under Treasury symbol number 68X5374.

Pesticide 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 FY 2004 were \$4,163 thousand. This amount was 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 for FY 2004.



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

Funding for PRIA is provided by fees collected from industry to offset costs incurred by EPA in carrying out these programs. Each year 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 2004, PRIA received funding from fees collected for monitoring of pesticides. For FY 2004, revenues were recognized from fee collections to the extent that expenses are incurred during the fiscal year.

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

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

### **G. 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.

### **H. 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 PRIA, liabilities are liquidated from fee receipts and interest earnings, since PRIA receives no appropriation. Liabilities of EPA, arising from other than contracts, can be abrogated by the Government acting in its sovereign capacity.

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## I. Annual, Sick and Other Leave

Annual, sick and other leave is expensed as taken during the fiscal year. Annual and other leave earned but not taken as of the end of the fiscal year is accrued as an unfunded liability.

## J. 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:*

		<b>FY 2004</b>
<b>Revolving Funds:</b>	Entity Assets	<u>\$ 11,367</u>
	Non-Entity Assets	<u>\$ 0</u>

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**Note 3. Other Liabilities:**

For FY 2004, the Payroll and Benefits Payable, non-Federal, are now presented on a separate line of the Balance Sheet and in a separate footnote (see Note 4 below).

**FY 2004**

**Other Intragovernmental Liabilities - Covered by Budgetary Resources**

Employer Contributions - Payroll	\$ <u>    32</u>
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**Other Intragovernmental Liabilities - Covered by Budgetary Resources**

Advances to non-federal entities	\$ <u>    0</u>
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**Note 4. Payroll and Benefits Payable, non-Federal:**

**FY 2004**

**Covered by Budgetary Resources**

Accrued Payroll Payable to Employees	\$ 90
Withholdings Payable	68
Thrift Savings Plan Benefits Payable	<u>5</u>
Total	<u>\$ 163</u>

**Not Covered by Budgetary Resources**

Unfunded Annual Leave Liability – Transferred-In (a)	\$ 203
Unfunded Annual Leave Expense (b)	<u>230</u>
Unfunded Annual Leave Liability – End of the Year	<u>\$ 433</u>

(a) In FY 2004, certain employees were transferred from FIFRA to PRIA, the unfunded leave liability associated with those employees was approximately \$203 thousand which is reported on the Statement of Net Position under “Other Financing Sources”.

(b) The unfunded annual leave expense for FY 2004 was \$230 thousand.

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

This process has led to variations between the year-end liabilities of FY 2004. The liabilities covered by budgetary resources (both intragovernmental and non-Federal) represent unpaid payroll and benefits at year-end. At the end of FY 2004, about 23 employees were charging to PRIA. As of September 30, 2004, these liabilities were \$32 thousand and \$163 thousand for employer contributions and accrued funded payroll and benefits.

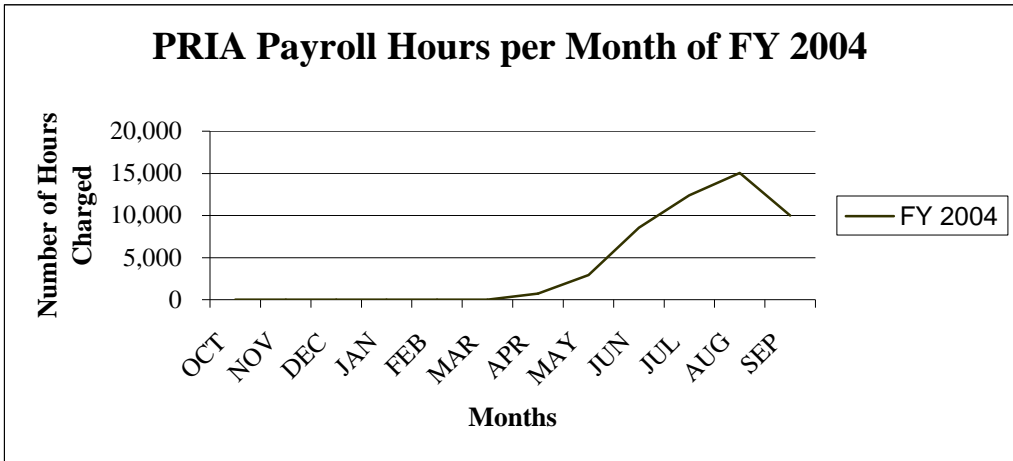
In contrast, the unfunded annual leave liability is a longer term liability than the funded liabilities. At various periods throughout FY 2004, approximately 23 employees in total have been under PRIA's accountability. Therefore the September 30, 2004 balances for unfunded annual leave were accrued to cover these 23 employees for a total of \$433 thousand.

***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 2004, 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 PRIA to EPM at various times during FY 2004 (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 PRIA each month, the transfers of employees and their associated costs during FY 2004 are shown below. Note that a decrease in hours charged to PRIA normally signifies an increase in EPM's payroll costs, and vice versa.



All of the expenses from EPM were distributed among EPA’s two Reporting Entities: Superfund and All Other (includes PRIA). 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 PRIA’s Net Position.

	<u>Income from Other Appropriations</u>	<u>Expenses from Other Appropriations</u>	<u>Net Effect</u>
From Inception (3/23/2004) to 9/30/2004	\$ 4,163	\$ 4,163	\$ 0

**Note 6. Exchange Revenues, Statement of Net Cost**

For FY 2004, the exchange revenues reported on the Statement of Net Cost are separated into Federal and non-Federal portions.

## ***Distribution***

Office of the Administrator  
Acting Assistant Administrator for Prevention, Pesticides and Toxic Substances  
Associate Assistant Administrator for Prevention, Pesticides and Toxic Substances  
Agency Followup Official (the CFO)  
Deputy Chief Financial Officer  
Agency Followup Coordinator  
General Counsel  
Director, Office of Pesticides Programs  
Deputy Director, Office of Pesticides Programs  
Director, Biopesticides and Pollution Prevention Division  
Director, Special Review and Reregistration Division  
Director, Registration Division  
Director, Antimicrobials Division  
Director, Office of Financial Management  
Director, Information Resources and Services Division  
Director, Office of Financial Services  
Director, Reporting and Analysis Staff  
Director, Financial Policy and Planning Staff  
Audit Followup Coordinator, Office of Prevention, Pesticides and Toxic Substances  
Audit Followup Coordinator, Office of the Chief Financial Officer  
Associate Administrator for Congressional and Intergovernmental Relations  
Associate Administrator for Public Affairs  
Inspector General