



U.S. ENVIRONMENTAL PROTECTION AGENCY  
OFFICE OF INSPECTOR GENERAL

*Catalyst for Improving the Environment*

## **Audit Report**

# **Fiscal Year 2007 and 2006 Financial Statements for the Pesticides Reregistration and Expedited Processing Fund**

**Report No. 08-1-0194**

**July 8, 2008**

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**Abbreviations**

EPA	U.S. Environmental Protection Agency
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
OPP	Office of Pesticide Programs
OPPIN	Office of Pesticide Programs Information Network



# 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 the FIFRA Fund) 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/2008/20080708-08-1-0194.pdf](http://www.epa.gov/oig/reports/2008/20080708-08-1-0194.pdf)

## ***Fiscal Year 2007 and 2006 Financial Statements for the Pesticides Reregistration and Expedited Processing Fund***

### **Opinion**

We rendered an unqualified, or clean, opinion on EPA's Pesticides Reregistration and Expedited Processing Fund Financial Statements for Fiscal Years 2007 and 2006, meaning that they were fairly presented and free of material misstatement.

### **Internal Control Significant Deficiency Noted**

We noted one significant deficiency in internal controls. The Office of Pesticide Programs was unable to provide reliable information on accomplishments for reregistration and amendment actions under FIFRA Performance Measure Two because it did not have effective controls to ensure data accuracy. EPA is required to annually report on its pesticide performance measures and goals.

### **Noncompliance 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 Response and Office of Inspector General Evaluation**

In a memorandum received on June 13, 2008, from the Assistant Administrator for Prevention, Pesticides, and Toxic Substances and the Chief Financial Officer, the Agency agreed with our findings and recommendations, and has begun corrective actions. We concur with the Agency's corrective actions, and believe they adequately address the issues raised.



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

OFFICE OF  
INSPECTOR GENERAL

July 8, 2008

**MEMORANDUM**

**SUBJECT:** Fiscal Year 2007 and 2006 Financial Statements for the  
Pesticides Reregistration and Expedited Processing Fund  
Report No. 08-1-0194

**FROM:** Paul C. Curtis   
Director, Financial Statement Audits

**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 2007 and 2006 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. This 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 \$225,239.

**Action Required**

In accordance with EPA Manual 2750, we are closing this report on issuance in our tracking system. You should track progress of your corrective actions in the Management Audit Tracking System.

If you or your staff have any questions regarding this report, please contact me at (202) 566-2523 or [Curtis.Paul@epa.gov](mailto:Curtis.Paul@epa.gov), or Wanda Whitfield at (202) 566-2533 or [Whitfield.Wanda@epa.gov](mailto:Whitfield.Wanda@epa.gov).

Attachments

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## **Inspector General's Report on the Fiscal Year 2007 and 2006 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, 2007 and 2006, and the related statements of net cost, changes in net position, and budgetary resources for the year 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 U.S. 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. 07-04, *Audit Requirements for Federal Financial Statements*. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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, including accompanying notes, present fairly, in all material respects, the assets, liabilities, net position, net costs, changes in net position, and budgetary resources of the FIFRA Fund, as of and for the years ended September 30, 2007 and 2006, in conformity with accounting principles generally accepted in the United States of America.

## Evaluation of Internal Controls

As defined by OMB Bulletin No. 07-04, 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.

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

**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.

In planning and performing our audit, we considered EPA's internal control over FIFRA financial reporting by obtaining an understanding of the Agency's internal controls, determining whether internal controls have been placed in operation, assessing control risk, and performing tests of controls. We did this as a basis for designing our auditing procedures for the purpose of expressing an opinion on the financial statements and to comply with OMB audit guidance, not to express an opinion on internal control. Accordingly, we do not express an opinion on internal control over financial reporting nor on management's assertion on internal controls included in Management's Discussion and Analysis. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin No. 07-04. 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.

Our consideration of the internal controls over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be significant deficiencies. Under standards issued by the American Institute of Certified Public Accountants, a significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Agency's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected. A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected. Because of inherent limitations in any internal controls, misstatements, losses, or noncompliance may nevertheless occur and not be detected. We noted a matter discussed below involving the internal control and its operation that we consider to be a significant deficiency. In



addition, as mentioned in the Prior Audit Coverage section of this report, we will continue to disclose a significant deficiency concerning documentation of the current accounting system and its automated application controls until EPA implements the planned replacement automated accounting system.

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. 07-04. 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.

### **Significant Deficiency: Misclassification of Reregistration and Amendment Actions**

The Office of Pesticide Programs (OPP) was unable to provide reliable information on reporting accomplishments for reregistration and amendment actions under the Pesticide Reregistration Program Performance Measure Two. FIFRA, as amended by the Food Quality Protection Act, requires EPA to annually report on its pesticide reregistration performance measures and goals. Incorrect and inconsistent coding in the OPP Information Network (OPPIN), OPP's information system, and ineffective controls to correct these errors, resulted in the inaccurate reporting of performance results. As a result, the Agency could not be sure of its program accomplishments for this performance measure for Fiscal Year 2007.

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

OMB Bulletin No. 07-04 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 the 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.

For financial statement audit purposes, OMB defines material weaknesses in internal control as a significant deficiency, or combination of significant deficiencies, that result in a more than remote likelihood that a material misstatement of the financial statements will not be prevented or detected.

During our audit, we did not identify any material weaknesses, and the Agency did not report any material weaknesses related to the FIFRA financial statements as a part of its FMFIA reporting.

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

## Management's Discussion and Analysis Section of the Financial Statements

Our audit work related to the information presented in Management's Discussion 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 the Management's Discussion and Analysis of the Pesticides Program. We did not note any significant discrepancies in these measures, with the exception of FIFRA Program Performance Measure Two. As discussed earlier, OPP was unable to provide reliable information for this measure.

## Prior Audit Coverage

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

- We found that EPA materially understated the FIFRA payroll unfunded leave accrual and related expenses reported in the draft financial statements for Fiscal Year 2006.
- We identified a weakness in the Agency's documentation of adjustments to Integrated Financial Management System (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 recorded the adjustment to the unfunded leave accrual and related expenses to accurately report those accounts in the FIFRA financial statements. The Office of the Chief

Financial Officer also developed procedures to monitor payroll and perform account analyses to detect errors.

The Agency began corrective action to improve documentation of adjusting and correcting entries in IFMS. EPA's Washington Finance Center updated its procedures to include maintaining adequate source documentation when adjusting and correcting entries are made to transactions already entered in IFMS. Washington Finance Center 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, issued January 9, 2007.)

EPA has made progress toward replacing IFMS, and expects to begin implementation in Fiscal Year 2008. However, until EPA implements the planned replacement automated accounting system that addresses past issues, we will continue to disclose a significant deficiency concerning documentation of the current accounting system and its automated application processing controls. (*Audit of EPA's Fiscal 2007 and 2006 (Restated) Consolidated Financial Statements*, Audit Report 08-1-0032, issued November 15, 2007.) In addition, EPA recognizes the importance of properly reviewing the financial statements, including the footnotes, supplemental information, and overview, prior to release or submittal for audit. EPA strengthened its quality control and review procedures for the financial statement documents (*Fiscal 2004 and 2003 Financial Statements for the Pesticides Reregistration and Expedited Processing Fund*, Audit Report 2005-1-00081; and *Fiscal 2004 Financial Statements for the Pesticide Registration Fund*, Audit Report 2005-1-00082, both issued May 4, 2005).

## Agency Response and OIG Evaluation

In a memorandum received on June 13, 2008, the Assistant Administrator for Prevention, Pesticides and Toxic Substances and the Chief Financial Officer 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.



Paul C. Curtis  
 Director, Financial Statement Audits  
 Office of Inspector General  
 U.S. Environmental Protection Agency  
 July 2, 2008

**Attachment 1**

***Significant Deficiency***

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## 1 - Misclassification of Reregistration and Amendment Actions

OPP was unable to provide reliable information on accomplishments for reregistration and amendment actions under the FIFRA Program Performance Measure Two. FIFRA, as amended by the Food Quality Protection Act, requires EPA to annually report on its pesticide reregistration performance measures and goals. Incorrect and inconsistent coding in OPPIN, OPP's information system, combined with ineffective controls to identify and correct these errors, resulted in the inaccurate reporting of performance results. As a result, the Agency could not be sure of its program accomplishments for this performance measure for Fiscal Year 2007.

We tested 91 reregistration and amendment actions, and found that 9 were misclassified. Specifically, we found that 2 out of 55 claimed reregistration actions were actually amendment actions, and 6 out of 36 claimed amendment actions were reregistration actions. Also, 1 of the 36 amendment actions noted above was completed in Fiscal Year 2006. OPP's Registration Division confirmed that the reregistration and amendment actions we identified were misclassified.

FIFRA, as amended by the Food Quality Protection Act, requires EPA to annually report in the Federal Register on its pesticide reregistration performance measures and goals. Specifically, Section 4(l) states:

*... Such measures and goals shall include the number of products reregistered, canceled, or amended, the status of reregistration ...*

FIFRA Performance Measure Two states:

*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.*

According to EPA's Strategic Plan, "measuring our performance is key to improving it." The Government Accountability Office *Standards for Internal Control in the Federal Government* provide that "...control activities help to ensure that all transactions are completely and accurately recorded." The standards also state "qualified and continuous supervision is to be provided to ensure that internal control objectives are achieved."

OPP officials were unsure why the misclassification of several product reregistration actions occurred. They explained that these discrepancies could have occurred for several reasons: (1) initial coding errors not being corrected in OPPIN, (2) inability to change certain dates in OPPIN, (3) inconsistent use of response codes, and (4) OPP staff may not have recorded entries timely or accurately in OPPIN. OPP officials further indicated that some registrant submittals may be coded in OPPIN as one kind of action when submitted, but be found to be a different kind of action when the Product Manager reviews them. However, these corrections may not have always been made in OPPIN.

OPP's Registration Division said they are correcting the errors in OPPIN. They also stated that a training program is being developed to ensure staff is entering the response codes for reregistration and amendment actions in OPPIN accurately.

Because OPP provided unreliable information, we were unable to assess the Agency's program accomplishments of reregistration and amendment actions for FIFRA Program Performance Measure Two. We cannot be sure of the extent of errors in the universe of reregistration and amendment actions; as a result, we have no assurance that the claimed reregistration and amendment actions for Fiscal Year 2007 and the cumulative status of product reregistration actions in the financial statements are accurate. Further, the Agency could not be sure of its accomplishments for this performance measure for Fiscal Year 2007. Unless controls are improved so that OPPIN data is reliable, OPP will not have accurate information to assess its performance and make program plans.

## **Recommendations**

We recommend that the Director, Office of Pesticide Programs:

- 1-1 Review the entire universe of reregistration and amendment actions claimed in Fiscal Year 2007 and correct any errors found in the OPPIN system.
- 1-2 Strengthen internal controls over the entry, review, and correction of information into the OPPIN system to reduce the risk of data entry errors. Specifically, review processes for coding and correcting actions in the OPPIN system; and develop procedures to ensure that these actions are entered consistently and accurately, and errors corrected timely.
- 1-3 Provide training to OPP staff responsible for entering information in the OPPIN system to ensure reregistration and amendment actions are classified accurately.
- 1-4 Direct the Product Managers to ensure that any errors in the classification of reregistration and amendment actions are modified promptly, and documented in the OPPIN system.
- 1-5 Disclose in the Annual Report on Reregistration Performance Measures and Goals published in the Federal Register that the Fiscal Year 2007 accomplishments for FIFRA Program Performance Measure Two are inaccurate, if they have not been corrected before publishing.

## **Agency Response and OIG Evaluation**

The Agency agreed with our findings and recommendations, and has begun corrective actions. The Agency's complete response is included in Appendix B to this report.

We agree with the Agency's proposed corrective actions, and believe they adequately address the issues raised.

## Attachment 2

## **Status of Recommendations and Potential Monetary Benefits**

RECOMMENDATIONS						POTENTIAL MONETARY BENEFITS (in \$000s)	
Rec. No.	Page No.	Subject	Status <sup>1</sup>	Action Official	Planned Completion Date	Claimed Amount	Agreed To Amount
1-1	8	Review the entire universe of reregistration and amendment actions claimed in Fiscal Year 2007 and correct any errors found in the OPPIN system.	O	Director, Office of Pesticide Programs	12/31/08		
1-2	8	Strengthen internal controls over the entry, review, and correction of information into the OPPIN system to reduce the risk of data entry errors. Specifically, review processes for coding and correcting actions in the OPPIN system; and develop procedures to ensure that these actions are entered consistently and accurately, and errors corrected timely.	C	Director, Office of Pesticide Programs	January 2008		
1-3	8	Provide training to OPP staff responsible for entering information in the OPPIN system to ensure reregistration and amendment actions are classified accurately.	O	Director, Office of Pesticide Programs	9/30/08		
1-4	8	Direct the Product Managers to ensure that any errors in the classification of reregistration and amendment actions are modified promptly, and documented in the OPPIN system.	C	Director, Office of Pesticide Programs	January 2008		
1-5	8	Disclose in the Annual Report on Reregistration Performance Measures and Goals published in the Federal Register that the Fiscal Year 2007 accomplishments for FIFRA Program Performance Measure Two are inaccurate, if they have not been corrected before publishing.	O	Director, Office of Pesticide Programs	8/31/08		

<sup>1</sup> 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

**Appendix A**

***FYs 2007 and 2006 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*



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# **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 and the Pesticide Registration Improvement Renewal Act in 2007, no additional tolerance petition fees will be deposited to the FIFRA Fund through FY 2012.

### ***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 to support 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). Passage of the Pesticide Registration Improvement Renewal Act (commonly known as PRIA II) on October 9, 2007 extended the authority to collect maintenance fees through FY 2012 (with annual fee amounts at \$22 million each FY). PRIA II includes the provision for use of maintenance fees to offset the costs of registration review beginning 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 2007 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 2007, EPA research results directly influenced regulatory actions and risk assessment decisions for pesticides to which the young and others are uniquely sensitive. To decrease the potential for exposure in the young and others, research provided a suite of biomarkers in saliva that can be used to determine pesticide exposures in children; determined the impact on human health of reducing exposure to water borne pathogens in drinking water and cumulative impact of air pollution reduction programs for children and older individuals; and developed, evaluated, and applied a DNA-based molecular indicator method for characterizing exposure to endocrine disrupting chemicals.

## ***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 2007.

#### **Measure: Tolerance re-evaluations.**

*Results: In FY 2007, EPA completed 84 tolerance reassessment decisions. All 84 reassessments occurred through reregistration/REDs. At the end of FY 2007, EPA had completed 9,721 tolerance reassessment decisions, addressing 100% of the 9,721 tolerances that required reassessment.*

### **Reregistration (FIFRA) Financial Perspective**

During FY 2007, the Agency's obligations charged against the FIFRA Fund for the cost of the reregistration programs and other authorized pesticide programs were \$21.5 million and 144.2 workyears. Of these amounts, OPP obligated \$18.9 million of this cost and funded the 144.2 workyears.

Appropriated funds are used in addition to FIFRA revolving funds. In FY 2007, approximately \$51.0 million in appropriated funds were obligated for reregistration program activities. The unobligated balance in the Fund at the end of FY 2007 was \$7.0 million.

The Fund has two types of receipts: fee collections and interest earned on investments. Of the \$22.0 million in FY 2007 receipts, approximately 97% 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 2007 President's budget.

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

*Results: In FY 2007, OPP completed 27 Reregistration Eligibility Decisions (REDs). Of the 613 chemical cases (representing approximately 1,150 pesticide active ingredients), that initially were subject to reregistration, 357 cases have completed REDs. An additional 229 reregistration cases were voluntarily canceled before EPA invested significant resources in developing REDs. A total of 586 reregistration cases ( 96%), therefore, had completed the reregistration eligibility decision making process by the end of FY 2007, leaving 27 cases (4%) 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 2007, 529 product reregistration actions, 80 product amendment actions, 370 product cancellation actions, and 0 product suspension actions were completed. Currently, a universe of over 21,350 products is undergoing or has completed product reregistration. The status of those products at the end of FY 2007 was as follows: 2,593 products had been reregistered; 641 product registrations had been amended; 5,046 products were cancelled; 6 products were suspended; and 13,065 products had actions/decisions pending. The Agency's goal in FY 2008 is to complete 1,000 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. 27,645 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 2007 REDs are shown in Table 1.*

*Table 1. Data Call-Ins Issued to Support Product Reregistration for FY 2007 REDs:*

Case Name	Case No.	Number of Products Covered by the RED <sup>1</sup>	Number of Product Chemistry Studies Required <sup>2</sup>	Number of Acute Toxicology Studies Required <sup>3</sup>	Number of Efficacy Studies Required
Aldicarb	0140	39	31	12 (2 batches)	0
Aliphatic Alcohols, C6-C16	4004	22	31	54 (5 batches/4 products not batched)	0
Aliphatic Esters	4005	1	31	6 (1 product not batched)	0
Alkyl Trimethylenediamines	3014	13	34	Antimicrobial RED – Acute toxicity batching has not been completed yet.	PDCI has not been completed yet
Allethrin Stereoisomers	0437	251	31	Acute toxicity batching has not been completed yet.	0
4-Aminopyridine	0015	10	31	PDCI and Acute toxicity batching have not been completed yet.	PDCI has not been completed yet.
Antimycin-A	4121	1	31	6 (1 product not batched)	0
Benzoic Acid	4013	11	31	Acute toxicity batching has not been completed yet.	0
Bioban-p-1487	3028	5	34	Antimicrobial RED – Acute toxicity batching has not been completed yet.	PDCI has not been completed yet
Bromonitrostyrene (Voluntary Cancellation)	2065	6	NA	NA	NA
Carbaryl*	0080	101	NA	NA	NA
Carbofuran*	0101	88	NA	NA	NA
Chlorflurenol	2095	5	31	30 (5 products not batched)	0
Chloromequat Chloride	3003	4	31	24 (4 products not batched)	0
Copper-8-Quinolinate	4026	28	34	Antimicrobial RED – Acute toxicity batching has not been completed yet.	PDCI has not been completed yet
2,4-DP-p (dichlorprop-p)	0294	63	31	Acute toxicity batching has not been completed yet.	0
Dikegulac Sodium	3061	2	31	Acute toxicity batching has not been completed yet.	0
Flumetralin	4119	6	31	Acute toxicity batching has not been completed yet.	PDCI has not been completed yet



Case Name	Case No.	Number of Products Covered by the RED <sup>1</sup>	Number of Product Chemistry Studies Required <sup>2</sup>	Number of Acute Toxicology Studies Required <sup>3</sup>	Number of Efficacy Studies Required
Formetanate HCl*	0091	6	NA	NA	NA
Glutaraldehyde	2315	59	34	Antimicrobial RED – Acute toxicity batching has not been completed yet.	PDCI has not been completed yet
Mecoprop-p (MCCP-p)	0377	314	31	Acute toxicity batching has not been completed yet.	0
Mefluidide	2370	12	31	48(2 batches/6 products not batched)	0
Naphthenate Salts	3099	49	34	Antimicrobial RED – Acute toxicity batching has not been completed yet.	PDCI has not been completed yet
Oethilinone	2475	37	34	Antimicrobial RED – Acute toxicity batching has not been completed yet.	PDCI has not been completed yet
Oxamyl*	0253	12	NA	NA	NA
Para-Dichlorbenzene	3058	28	31	Acute toxicity batching has not been completed yet.	0
Polypropylene Glycol (Butoxypolypropylene Glycol)	3123	53	31	PDCI and Acute toxicity batching have not been completed yet.	PDCI has not been completed yet
Rotenone	0255	50	31	Acute toxicity batching has not been completed yet.	PDCI has not been completed yet
Trimethoxysilyl Quats	3148**	30	34	Antimicrobial RED – Acute toxicity batching has not been completed yet.	PDCI has not been completed yet
Total		1306			

\*These 4 chemicals were issued as IREDs in previous fiscal years. At that time, PDCIs were approved and/or issued for Carbaryl, Formetanate Hcl, and Oxamyl. A PDCI was not issued for Carbofuran because its products were declared ineligible for reregistration. These IREDs became REDs in September 2007 when the N-Methyl Carbamate cumulative risk assessment was completed. Additional PDCIs will not be issued for these REDs.

\*\*2 additional active ingredients were significantly similar to Trimethoxysiy Quats (Case 3148) and were included in the Trimethoxysiy Quats RED.

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.

<sup>1</sup> 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.

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

<sup>3</sup> 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.***List 1. Fiscal Year 2008 Candidates for Decisions***FY 2008 RED Candidate Pesticides**

Acrolein  
Amical 48  
Busan 77  
Chloropicrin  
Chromated arsenicals (CCA)  
Coal tar/creosote  
Dazomet  
[Denatonium benzoate or Bitrex – part of ADBAC case 0350 completed FY 2006]  
Ethylene oxide (ETO) [TRED completed FY 2006]  
Formaldehyde  
Grotan  
Inorganic thiosulfates (ammonium and calcium thiosulfate)  
Methyl bromide [soil fumigant uses; commodity uses TRED & RED completed FY 2006]  
Methyldithiocarbamate salts (metam sodium/metam potassium)  
MITC  
Naphthalene  
Nicotine  
Organic esters of phosphoric acid  
Pentachlorophenol  
Prometon  
Siduron  
Sodium fluoride  
Sulfometuron methyl  
Sumithrin  
TBT-containing compounds  
Tetramethrin  
Triclosan (Irgasan)  
Triforine

**PRINCIPAL  
FINANCIAL STATEMENTS**

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**Environmental Protection Agency  
FIFRA  
Balance Sheet  
As of September 30, 2007 and 2006  
(Dollars in Thousands)**

	<u>FY 2007</u>	<u>FY 2006</u>
<b>ASSETS</b>		
Intragovernmental		
Fund Balance With Treasury (Note 2)	\$ 9,284	\$ 8,045
Other (Note 3)	<u>100</u>	<u>558</u>
Total Intragovernmental	\$ 9,384	\$ 8,603
<b>Total Assets</b>	<b>\$ <u><u>9,384</u></u></b>	<b>\$ <u><u>8,603</u></u></b>
<b>LIABILITIES</b>		
Intragovernmental		
Accounts Payable & Accrued Liabilities	\$ 250	\$ 254
Other (Note 4)	<u>199</u>	<u>84</u>
Total Intragovernmental	\$ 449	\$ 338
Accounts Payable & Accrued Liabilities	212	470
Payroll & Benefits Payable (Note 5)	3,121	3,105
Other (Note 4)	<u>8,708</u>	<u>8,071</u>
Total Liabilities	\$ 12,490	\$ 11,984
<b>NET POSITION</b>		
Cumulative Results of Operations	<u>(3,106)</u>	<u>(3,381)</u>
Total Net Position	(3,106)	(3,381)
<b>Total Liabilities and Net Position</b>	<b>\$ <u><u>9,384</u></u></b>	<b>\$ <u><u>8,603</u></u></b>

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

**Environmental Protection Agency  
FIFRA  
Statement of Net Cost  
For the Years Ended September 30, 2007 and 2006  
(Dollars in Thousands)**

	<u>FY 2007</u>	<u>FY 2006</u>
<b>COSTS</b>		
Gross Cost (Note 8)	\$ 22,641	\$ 27,746
Expenses from Other Appropriations (Note 6)	52,042	49,999
Total Costs	<u>\$ 74,683</u>	<u>\$ 77,745</u>
Less:		
Earned Revenues, (Notes 7 and 8)	<u>\$ 21,376</u>	<u>\$ 26,857</u>
<b>NET COST OF OPERATIONS (Note 8)</b>	<b><u><u>\$ 53,307</u></u></b>	<b><u><u>\$ 50,888</u></u></b>

**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, 2007 and 2006  
(Dollars in Thousands)**

	<u>FY 2007</u>	<u>FY 2006</u>
Net Position - Beginning of Period	\$ (3,381)	\$ (3,004)
Budgetary Financing Sources:		
Income from Other Appropriations (Note 6)	<u>52,042</u>	<u>49,999</u>
Total Budgetary Financing Sources	\$ <u>52,042</u>	\$ <u>49,999</u>
Other Financing Sources:		
Imputed Financing Sources	<u>1,540</u>	<u>512</u>
Total Other Financing Sources	\$ <u>1,540</u>	\$ <u>512</u>
Net Cost of Operations	(53,307)	(50,888)
Net Change	275	(377)
Net Position - End of Period	<u>\$ (3,106)</u>	<u>\$ (3,381)</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, 2007 and 2006  
(Dollars in Thousands)**

	<u>FY 2007</u>	<u>FY 2006</u>
<b>BUDGETARY RESOURCES</b>		
Unobligated Balance, Brought Forward, October 1:	\$ 5,616	\$ 4,986
Recoveries of Prior Year Unpaid Obligations	828	894
Spending Authority from Offsetting Collections:		
Earned:		
Collected	21,389	26,867
Change in Unfilled Customer Orders:		
Advance Received	631	(437)
<b>Total Budgetary Resources</b>	<u>\$ 28,464</u>	<u>\$ 32,310</u>
<b>STATUS OF BUDGETARY RESOURCES</b>		
Obligations Incurred:		
Reimbursable	\$ 21,478	\$ 26,694
Total Obligations Incurred	21,478	26,694
Unobligated Balances:		
Apportioned	6,986	5,616
<b>Total Status of Budgetary Resources</b>	<u>\$ 28,464</u>	<u>\$ 32,310</u>
<b>CHANGE IN OBLIGATED BALANCE</b>		
Obligated Balance, Net:		
Unpaid Obligations, Brought Forward, October 1	\$ 2,427	\$ 2,952
Total Unpaid Obligated Balance, Net	2,427	2,952
Obligations Incurred, Net	21,478	26,694
Less: Gross Outlays	(20,781)	(26,325)
Less: Recoveries of Prior Year Unpaid Obligations	(828)	(894)
Total, Change in Obligated Balance	2,296	2,427
Obligated Balance, Net, End of Period:		
Unpaid Obligations	2,296	2,427
Total, Unpaid Obligated Balance, Net, End of Period	\$ 2,296	\$ 2,427
<b>NET OUTLAYS</b>		
Net Outlays:		
Gross Outlays	\$ 20,781	\$ 26,325
Less: Offsetting Collections	(22,020)	(26,429)
<b>Total, Net Outlays</b>	<u>\$ (1,239)</u>	<u>\$ (104)</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.

The FIFRA Revolving Fund was authorized in 1988 by amendments to the Federal Insecticide, Fungicide and Rodenticide Act (FIFRA). The 1988 amendments mandated the accelerated re-registration of all products registered prior to November 1, 1984. Congress authorized the collection of maintenance fees to supplement appropriations to fund re-registration and to fund expedited processing of pesticides. Maintenance fees are assessed on registrants of pesticide products. FIFRA also includes provisions for the registration of new pesticides (funded in part from the PRIA or Pesticide Registration Fund), monitoring the distribution and use of pesticides, issuing civil or criminal penalties for violations, establishing cooperative agreements with the states, and certifying training programs for users of restricted chemicals. Appropriated funds, with the exception of partial funding of registration from Pesticide Registration Service Fees in the Pesticide Registration Fund, pay for these activities. The FIFRA Revolving Fund is accounted for under Treasury symbol number 68X4310.

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 2007 and 2006 were \$52,042 thousand and \$49,999 thousand, respectively. These amounts are included as Income from Other Appropriations on the Statements of Changes in Net Position 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**

EPA's 2002 appropriations bill extended authority to collect maintenance fees by one year in the amount of \$17 million and the FY 2003 appropriations extended the authority to collect fees again by one year in the amount of \$21.5 million. Passage of the Pesticide Registration Improvement Act (PRIA) in 2004 extended the authority to collect maintenance fees through FY 2008 (with annual fee amounts at \$26 million in FY 2004; \$27 million in FY 2005-2006; \$21 million in FY 2007; and \$15 million in FY 2008). Passage of the Pesticide Registration Improvement Renewal Act (commonly referred to as PRIA II) extended the authority to collect maintenance fees through FY 2012 (with annual fee amounts set at \$22 million each year from 2008-2012). For FYs 2007 and 2006, the FIFRA Revolving Fund received funding from maintenance fees collected for re-registration and from interest collected on investments in U.S. Government securities. For FYs 2007 and 2006 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 SFFAS No. 5, "Accounting for Liabilities of the Federal Government," accounting and reporting standards were established for liabilities relating to the Federal employee benefit programs (Retirement, Health Benefits, and Life Insurance). SFFAS No. 5 requires that the employing agencies recognize the cost of pensions and other retirement benefits during their employees' active years of service. SFFAS No. 5 requires that the Office of Personnel Management (OPM), as administrator of the CSRS and FERS, the Federal Employees Health Benefits Program, and the Federal Employees Group Life Insurance Program, provide Federal agencies with the actuarial cost factors to compute the liability for each program.

**Note 2. Fund Balance with Treasury:**

	<u>FY 2007</u>	<u>FY 2006</u>
Revolving Funds: Entity Assets	\$ <u>9,284</u>	\$ <u>8,045</u>

**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, 2007 and 2006, funds advanced that will be applied to future costs as incurred were \$100 thousand and \$558 thousand, respectively.

**Note 4. Other Liabilities:**

For FYs 2007 and 2006, 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 2007</u>	<u>FY 2006</u>
<b>Other Intragovernmental Liabilities - Covered by Budgetary Resources</b>		
Employer Contributions - Payroll	\$ <u>199</u>	\$ <u>84</u>
<b>Total</b>	<b>\$ <u>199</u></b>	<b>\$ <u>84</u></b>
 <b>Other Non-Federal Liabilities – Covered by Budgetary Resources</b>		
Advances from Non-Federal Entities	\$ <u>8,708</u>	<u>8,071</u>
<b>Total</b>	<b>\$ <u>8,708</u></b>	<b><u>8,071</u></b>

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

	<u>FY 2007</u>	<u>FY 2006</u>
<b>Covered by Budgetary Resources</b>		
Accrued Payroll Payable to Employees	\$ 359	\$ 197
Withholdings Payable	427	176
Thrift Savings Plan Benefits Payable	31	13
<b>Total</b>	<b><u>\$ 817</u></b>	<b><u>\$ 386</u></b>
<b>Not Covered by Budgetary Resources</b>		
Unfunded Annual Leave Liability	<b><u>\$ 2,304</u></b>	<b><u>\$ 2,719</u></b>

At various periods throughout FYs 2007 and 2006, 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 2007 and 2006.) 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 2007 and probably beyond that period.

This process has led to variations between the year-end liabilities for FYs 2007 and 2006. The liabilities covered by budgetary resources (both intragovernmental and non-Federal) represent unpaid payroll and benefits at year-end. At the end of FY 2007, 54 employees were charging all or part of their salary and benefits to FIFRA compared to 109 employees for the end of FY 2006. As of September 30, 2007 these liabilities were \$199 thousand and \$817 thousand for employer contributions and accrued funded payroll and benefits, as compared to FY 2006's balances of \$84 thousand and \$386 thousand, respectively.

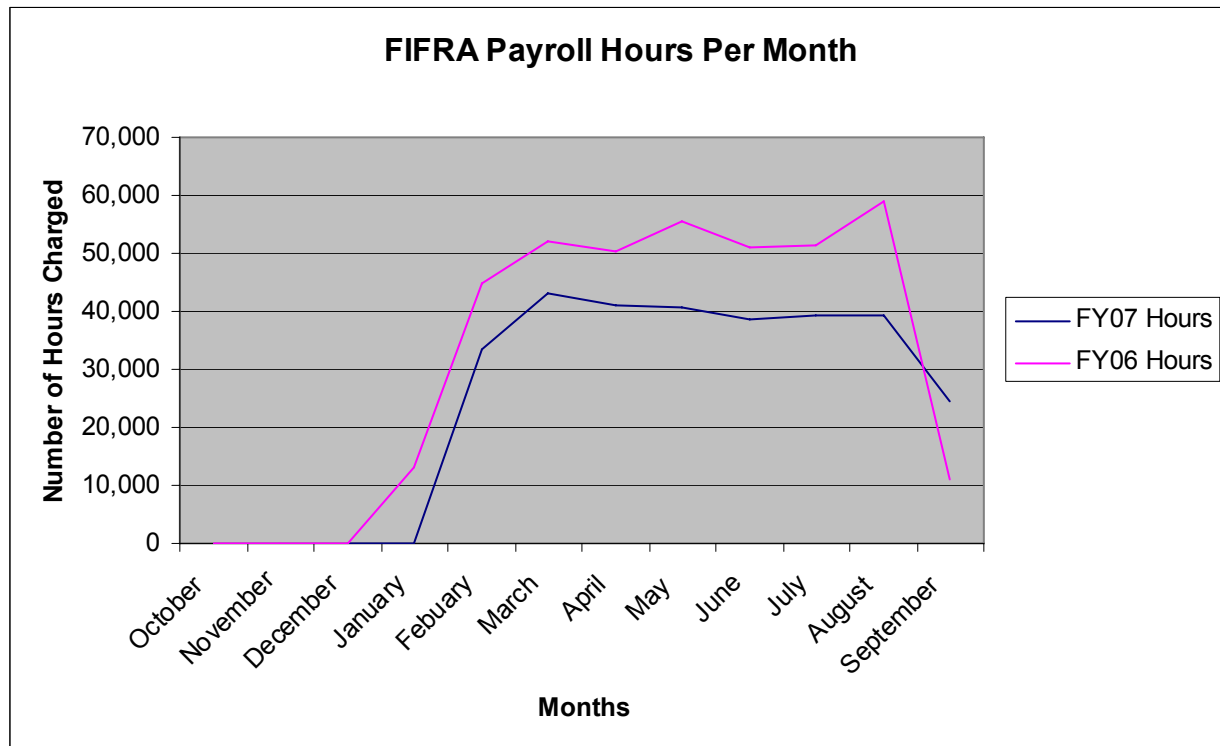
In contrast, the unfunded annual leave liability is a longer term liability than the funded liabilities. At various periods throughout FYs 2007 and 2006, approximately 319 and 353 employees, respectively, in total have been under FIFRA's accountability. During the last pay period of FY 2007, many FIFRA employees had been transferred to EPM so the liability was computed based on 256 employees charged to FIFRA during the pay period before the last pay period. Therefore, both the September 30, 2007 and 2006 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 \$2,304 thousand and \$2,719 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 2007 and 2006, 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 2007 and 2006 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.



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 2007 \$	52,042	\$	52,042	\$	<u>0</u>
FY 2006 \$	<u>49,999</u>	\$	<u>49,999</u>	\$	<u>0</u>

**Note 7. Exchange Revenues, Statement of Net Cost**

For FYs 2007 and 2006, 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 2007</u>	<u>FY 2006</u>
<b>COSTS:</b>		
Intragovernmental	\$ 7,028	\$ 6,788
With the Public	15,613	20,958
Expenses from Other Appropriations	<u>52,042</u>	<u>49,999</u>
Total Costs	\$ 74,683	\$ 77,745
<b>REVENUE:</b>		
Intragovernmental	\$ 602	\$ 558
With the Public	<u>20,774</u>	<u>26,299</u>
Total Revenue	\$ 21,376	\$ 26,857
<b>NET COST OF OPERATIONS</b>	<u><b>\$ 53,307</b></u>	<u><b>\$ 50,888</b></u>

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



**Note 9. Reconciliation of Net Cost of Operations to Budget (formerly the Statement of Financing)**

	<u>FY 2007</u>	<u>FY 2006</u>
<b>RESOURCES USED TO FINANCE ACTIVITIES:</b>		
Budgetary Resources Obligated		
Obligations Incurred	\$ 21,478	\$ 26,694
Less: Spending Authority from Offsetting Collections and Recoveries	<u>(22,848)</u>	<u>(27,323)</u>
Obligations, Net of Offsetting Collections	\$ (1,370)	\$ (629)
Other Resources		
Imputed Financing Sources	\$ 1,540	\$ 512
Income from Other Appropriations (Note 6)	<u>52,042</u>	<u>49,999</u>
Net Other Resources Used to Finance Activities	\$ 53,582	\$ 50,511
 Total Resources Used To Finance Activities	 \$ 52,212	 \$ 49,882
<b>RESOURCES USED TO FINANCE ITEMS NOT PART OF NET COST OF OPERATIONS</b>		
Change in Budgetary Resources Obligated for Goods	\$ 1,510	\$ 521
Resources that Fund Prior Period Expenses	<u>(415)</u>	<u>-</u>
Total Resources Used to Finance Items Not Part of the Net Cost of Operations	\$ 1,095	\$ 521
 Total Resources Used to Finance the Net Cost of Operations	 \$ 53,307	 \$ 50,403
<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	<u>-</u>	<u>485</u>
Total components of Net Cost of Operations that Require or Generate Resources in Future Periods	-	485
 <b>Net Cost of Operations</b>	 <b>\$ <u>53,307</u></b>	 <b>\$ <u>50,888</u></b>

**Appendix B*****Agency's Response to Draft Report***

June 6, 2008

MEMORANDUM

**SUBJECT:** OPP Response to Draft Audit Report: Fiscal Year 2007 and 2006 Financial Statements for the 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 (2422T)

Thank you for the opportunity to respond to the May 15, 2008, Draft Audit Report: Fiscal Year 2007 and 2006 Financial Statements for the Pesticides Reregistration and Expedited Processing Fund. The Office of Pesticide Programs (OPP) appreciates the Office of Inspector General's (OIG) efforts to understand OPP's legal and regulatory framework and OPP's procedures for processing pesticide product reregistration and amendment actions under the Federal Insecticide, Fungicide, and Rodenticide Act (FIFRA).

We agree with your general conclusions provided in the report and believe they reflect how we have been consistently performing. We appreciate the OIG's help evaluating our program, and your suggestions for improving our tracking of the effectiveness of our program. Protection of human health and the environment from unreasonable adverse effects of pesticides is a responsibility we take very seriously and we welcome OIG's input on our work.

The draft audit report presents a number of recommendations to address issues with reporting accomplishments for product reregistration and amendments under Pesticide Reregistration Program Performance Measure Two, "Number of products reregistered, canceled, or amended." OPP's response to those recommendations is presented below.

**Recommendation 1-1:** Review the entire universe of reregistration and amendment actions claimed in fiscal year 2007; and correct any errors found in the OPPIN system.

**OPP's Response:** OPP will review all the product reregistration and amendment actions that were reported during fiscal year 2007 and will correct any errors found. We expect to complete this task by December 31, 2008.

**Recommendation 1-2:** Strengthen internal controls over the entry, review, and correction of information into the OPPIN system to reduce the risk of data entry errors. Specifically, review processes for coding and correcting actions in the OPPIN system; and develop procedures to ensure that these actions are entered consistently and accurately, and errors are corrected timely.

**OPP's Response:** In order to ensure that product reregistration and amendment actions are correctly recorded in OPPIN, OPP has established a product reregistration quarterly audit program. An audit team, comprised of staff from the product registering divisions (RD, BPPD, and AD) will compile a list of completed product reregistration and amendment actions on a quarterly basis and randomly select a 10% cross-section sample of actions completed in that quarter for review. The team will review the actions according to the following procedure: (1) review the product jackets for documentation of product reregistrations and amendments; and (2) review OPPIN to ensure the actions were coded and accurate information entered. The team will be staffed on a rotating basis from the branches that handle product reregistration, with the added benefit of training more employees on the quarterly audit program. As an additional measure to ensure that OPP is accurately reporting the actions completed in FY 2008, OPP will maintain both paper and electronic copies of the documentation for product reregistration and amendments – one in a reference notebook, and the other in a shared database.

**Recommendation 1-3:** Provide training to OPP staff responsible for entering information in the OPPIN system, to ensure reregistration and amendment actions are classified accurately.

**OPP's Response:** RD has developed a training document for staff to use to correctly enter product reregistration and amendment actions in OPPIN. One training session has already been completed for staff regarding codes for product reregistration, with additional training to be scheduled. RD is working with the Information Technology and Resource Management Division to establish response codes for product reregistration and amendment actions that accurately address the type of action taken. These codes will remove the ambiguity between a product being reregistered and a product being amended. Initial training will be complete by September 30, 2008. Thereafter, staff newly assigned to product reregistration and amendment data entry responsibilities will be provided with the training documentation and coaching.

**Recommendation 1-4:** Direct the Product Managers to ensure that any errors in the classification of reregistration and amendment actions are modified promptly and documented in the OPPIN system.

**OPP's Response:** As an interim step until all staff have been trained, Product Managers are required to personally close out product reregistrations and amendments in OPPIN. Product Managers and their branch chiefs also receive the results of the internal quarterly audit mentioned above and ensure that any necessary corrections are made. Finally, the staffer who maintains a copy of all product reregistrations and amendments will also spot-check OPPIN to make sure that the system has been correctly updated.

**Recommendation 1-5:** Disclose in the Annual Report on Reregistration Performance Measures and Goals published in the Federal Register that the Fiscal Year 2007 accomplishments for FIFRA Program Performance Measure Two are inaccurate, if they have not been corrected before publishing.

**OPP's Response:** The 2007 Pesticide Reregistration Performance Measures and Goals Report will not include the usual section on product reregistration actions completed. Instead it will explain that OPP is reviewing and strengthening its internal processes and controls for handling and electronically managing information concerning product reregistration actions and accomplishments. OPP plans to complete this review by December 31, 2008, and will capture in next year's Reregistration Performance Measures and Goals FR notice the actions completed in FY 2007 and in FY 2008. This review will correct discrepancies in the claimed reregistration and amendment actions identified during the FY 2007 annual audit.

Again, we appreciate the OIG's working with OPP to ensure that our accounting systems, financial statements and internal controls are in compliance with applicable laws and regulations. If you have any questions concerning our responses, you may contact Marty Monell, Deputy Director, Office of Pesticide Programs on 703 305-7090, or Maryann Petrole, Chief, Financial Management and Planning Branch, OPP on 703 308-8685.

## **Status of Recommendations and Potential Monetary Benefits**

RECOMMENDATIONS					POTENTIAL MONETARY BENEFITS (in \$000s)		
Rec. No.	Page No.	Subject	Status <sup>1</sup>	Action Official	Planned Completion Date	Claimed Amount	Agreed To Amount
1-1	8	Review the entire universe of reregistration and amendment actions claimed in Fiscal Year 2007 and correct any errors found in the OPPIN system.	Ongoing	Director, Office of Pesticide Programs	12/31/08		
1-2	8	Strengthen internal controls over the entry, review, and correction of information into the OPPIN system to reduce the risk of data entry errors. Specifically, review processes for coding and correcting actions in the OPPIN system; and develop procedures to ensure that these actions are entered consistently and accurately, and errors corrected timely.	Done	Director, Office of Pesticide Programs	Done Jan 08		
1-3	8	Provide training to OPP staff responsible for entering information in the OPPIN system to ensure reregistration and amendment actions are classified accurately.	Ongoing	Director, Office of Pesticide Programs	09/30/08		
1-4	8	Direct the Product Managers to ensure that any errors in the classification of reregistration and amendment actions are modified promptly, and documented in the OPPIN system.	Done	Director, Office of Pesticide Programs	Done Jan 08		
1-5	8	Disclose in the Annual Report on Reregistration Performance Measures and Goals published in the Federal Register that the Fiscal Year 2007 accomplishments for FIFRA Program Performance Measure Two are inaccurate, if they have not been corrected before publishing.	Ongoing	Director, Office of Pesticide Programs	08/31/08		

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

**Appendix C*****Distribution***

Office of the Administrator  
Chief Financial Officer  
Agency Follow-up Official (the CFO)  
Deputy Chief Financial Officer  
Agency Followup Coordinator  
Office of General Counsel  
Assistant Administrator for Prevention, Pesticides, and Toxic Substances  
Assistant Administrator for Administration and Resources Management  
Associate Administrator for Congressional and Intergovernmental Relations  
Associate Administrator for Public Affairs  
Director, Office of Pesticide Programs, Office of Prevention, Pesticides, and Toxic Substances  
Deputy Director, Office of Pesticide Programs, Office of Prevention, Pesticides, and Toxic Substances  
Director, Biopesticides and Pollution Prevention Division, Office of Prevention, Pesticides, and Toxic Substances  
Director, Special Review and Reregistration Division, Office of Prevention, Pesticides, and Toxic Substances  
Director, Registration Division, Office of Prevention, Pesticides, and Toxic Substances  
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Deputy Inspector General