



U.S. ENVIRONMENTAL PROTECTION AGENCY

OFFICE OF INSPECTOR GENERAL

Financial Management

Fiscal Years 2016 and 2015 Financial Statements for the Pesticide Registration Fund

Report No. 17-F-0365

August 14, 2017



Report Contributors:

Paul Curtis
Cynthia Poteat
Bob Smith
Safiya Chambers
Robert Hairston
Tanishia Heilig
Sheree James
Ethel Lowery
Sheila May
Claire McWilliams
Guillermo Mejia
Demetrios Papakonstantinou
Bill Samuel
Lynda Taylor
Amir Eskarous

Abbreviations

EPA	U.S. Environmental Protection Agency
FMFIA	Federal Managers' Financial Integrity Act
FY	Fiscal Year
OIG	Office of Inspector General
OMB	Office of Management and Budget
PRIA	Pesticide Registration Improvement Act

Cover photo: Pesticides being applied. (EPA photo)

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OIG_Hotline@epa.gov

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EPA Office of Inspector General

1200 Pennsylvania Avenue, NW (2410T)
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At a Glance

Why We Did This Review

The Pesticide Registration Improvement Act (PRIA) requires that we perform an annual audit of the Pesticide Registration Fund (known as the PRIA Fund) financial statements.

To expedite the registration of certain pesticides, Congress authorized the U.S. Environmental Protection Agency (EPA) to assess and collect pesticide registration fees. The fees collected are deposited into the PRIA Fund. The agency is required to prepare financial statements that present financial information about the PRIA Fund. PRIA also requires the establishment of decision time review periods for pesticide registration actions, and requires the Office of Inspector General to perform an analysis of the agency's compliance with those review periods.

This report addresses the following EPA goal or cross-agency strategy:

- *Embracing EPA as a high-performing organization.*

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Listing of [OIG reports](#).

Fiscal Years 2016 and 2015 Financial Statements for the Pesticide Registration Fund

Disclaimer of Opinion

We rendered a disclaimer of opinion on the PRIA Fund financial statements for fiscal years (FY) 2016 and 2015, meaning that we were unable to obtain sufficient evidence to determine if they were fairly presented and free of material misstatement.

Due to the material weakness in internal controls noted, the agency cannot provide reasonable assurance that financial data provided for the PRIA Fund accurately reflect the agency's financial activities and balances.

Internal Control Material Weakness Noted

We noted a material weakness in that the EPA cannot adequately support its FY 2016 PRIA Fund costs. The EPA's Office of Pesticide Programs receives its funding from both fees paid by pesticide manufacturers and amounts appropriated by Congress. In FY 2016, the EPA allocated its pesticide funding to use appropriated amounts, which would expire, and retained funding received from fees. Therefore, significant payroll amounts paid from appropriations were not charged directly to the PRIA Fund or other pesticide programs. This resulted in the loss of the audit trail for reporting separate costs and liabilities for the PRIA Fund and other pesticide programs. Because this issue was noted in prior audit reports and the agency is taking corrective actions, we make no new recommendations for this material weakness.

Compliance With Applicable Laws and Regulations

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



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

OFFICE OF
INSPECTOR GENERAL

August 14, 2017

MEMORANDUM

SUBJECT: Fiscal Years 2016 and 2015 Financial Statements for the Pesticide Registration Fund
Report No. 17-F-0365

FROM: Paul C. Curtis, Director
Financial Statement Audits

A handwritten signature in black ink that reads "Paul C. Curtis".

TO: Wendy Cleland-Hamnett, Acting Assistant Administrator
Office of Chemical Safety and Pollution Prevention

David Bloom, Acting Chief Financial Officer

This is our report on the audit of the U.S. Environmental Protection Agency's (EPA's) fiscal years 2016 and 2015 financial statements for the Pesticide Registration Fund, conducted by the Office of Inspector General (OIG). The project number for this audit was OA-FY17-0087.

This report contains no recommendations, and you are not required to respond to this report. However, if you submit a response, it will be posted on the OIG's public website, along with our memorandum commenting on your response. Your response should be provided as an Adobe PDF file that complies with the accessibility requirements of Section 508 of the Rehabilitation Act of 1973, as amended. The final response should not contain data that you do not want to be released to the public; if your response contains such data, you should identify the data for redaction or removal along with corresponding justification.

We will post this report to our website at www.epa.gov/oig.

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Inspector General's Report on the Fiscal Years 2016 and 2015 Financial Statements for the Pesticide Registration Fund

The Administrator
U.S. Environmental Protection Agency

Report on the Financial Statements

We have audited the accompanying financial statements of the Pesticide Registration Fund (known as the PRIA Fund), which comprise the balance sheet as of September 30, 2016, and September 30, 2015, and the related statements of net cost, changes in net position, and statement of budgetary resources for the years then ended; and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America. This includes the design, implementation and maintenance of internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on conducting the audit in accordance with generally accepted government 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 15-02, *Audit Requirements for Federal Financial Statements*. Because of the matter described in the Basis for Disclaimer of Opinion section, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for Disclaimer of Opinion

The U.S. Environmental Protection Agency (EPA) cannot adequately support payroll liabilities on the PRIA Fund's Balance Sheet as of September 30, 2016 and 2015; and Income/Expense from other appropriations on the statements of the PRIA Fund's Net Costs and Changes in Net Position for the years ended September 30, 2016 and 2015.

In fiscal years (FYs) 2016 and 2015, the EPA allocated its pesticides appropriated funding to pay for payroll costs. By paying significant payroll amounts from appropriations versus from fees collected by the PRIA Fund, the EPA lost the audit trail to properly support how much of the PRIA payroll expenses were paid for by appropriations. We were unable to satisfy ourselves by other audit procedures concerning the adequacy of the amounts allocated, consistency of application, or reasonableness of the payroll expenses between the PRIA Fund and the EPA's other pesticide programs, including payroll accruals, as of and for the years ended September 30, 2016 and 2015. As a result, we were unable to determine whether any adjustments were necessary relating to payroll and related accounts, income/expense from other appropriations, and payroll liabilities.

Disclaimer of Opinion

Because of the significance of the matter described in the Basis for Disclaimer of Opinion section above, we have not been able to obtain sufficient, appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on the PRIA Fund's financial statements, and the related accompanying notes as of and for the years ended September 30, 2016 and 2015.

Report on Internal Control Over Financial Reporting

Opinion on Internal Controls. In planning and performing our audit, we considered the EPA's internal controls over financial reporting by obtaining an understanding of the agency's internal controls, determining whether internal controls had 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. 15-02, *Audit Requirements for Federal Financial Statements*. We did not test all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act of 1982 (FMFIA).

Material Weakness and Significant Deficiencies. 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. A deficiency in internal controls exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will

not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Because of inherent limitations in internal controls, misstatements, losses or noncompliance may nevertheless occur and not be detected. We noted a certain matter, discussed below and detailed in Attachment 1 and Prior Audit Coverage, involving internal control and its operation that we consider to be material.

Material Weakness

The EPA cannot adequately support its FY 2016 PRIA Fund costs. OMB policy states that basic financial statements include a Balance Sheet and Statement of Net Costs, and that the statement of net costs should include the net costs of operations. The EPA's Office of Pesticide Programs receives its funding from both fees paid by pesticide manufacturers and from amounts appropriated by Congress. In FY 2016, the EPA allocated its pesticide funding to use appropriated amounts, which would expire, and retained funding received from fees. Therefore, significant payroll amounts paid from appropriations were not charged directly to the PRIA Fund or other pesticide programs. This resulted in the loss of the audit trail for reporting separate costs and liabilities for the PRIA Fund and other pesticide programs. The EPA developed an allocation methodology to distribute costs funded by EPA appropriations back to the PRIA Fund, but the methodology is based upon inconsistent charging of payroll costs between the PRIA Fund and EPA appropriations.

Because the EPA cannot adequately support total FY 2016 PRIA Fund costs and liabilities, and because we were unable to determine by other audit procedures the adequacy of amounts allocated, consistency of application, or reasonableness of net costs and liabilities, we disclaimed an opinion on the PRIA Fund's FY 2016 financial statements. We consider the EPA's inability to support the PRIA Fund payroll costs a material weakness.

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

OMB Bulletin No. 15-02, *Audit Requirements for Federal Financial Statements*, requires the OIG 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. The agency's FMFIA report is prepared and submitted at the Consolidated level, of which the PRIA Fund is a component.

The agency did not report any material weakness for FY 2016, at the consolidated level, impacting the PRIA Fund.

Tests of Compliance With Laws, Regulations, Contracts and Grant Agreements

The EPA management is responsible for complying with laws, regulations, contracts and grant agreements applicable to the agency. As part of obtaining a reasonable assurance as to whether the agency's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, including those governing the use of budgetary authority, regulations, contracts and grant agreements that have a direct effect on the determination of material amounts and disclosures in PRIA Fund financial statements. The objective of our audit, including our tests of compliance with applicable laws, regulations, contracts, and grant agreements, was not to provide an opinion on compliance with such provisions. Accordingly, we do not express such an opinion. We did not identify any instances of noncompliance that would result in a material misstatement to the audited financial statements.

Management's Discussion and Analysis Section of the Financial Statements

Our audit work related to the information presented in the Management's Discussion and Analysis of the pesticide program included comparing the overview information with information in the EPA's principal financial statements for consistency. We did not identify any material inconsistencies between the information presented in the two documents.

Prior Audit Coverage

During a previous audit of the PRIA financial statements—*Fiscal Years 2014 and 2013 Financial Statements for the Pesticide Registration Fund* (Report No. [16-F-0323](#)), issued September 22, 2016—we reported a material weakness regarding inadequate support of costs. We reported the same issue in the next audit report for the PRIA Financial Statements—*Fiscal Years 2015 and 2014 Financial Statements for the Pesticide Registration Fund* (Report No. [17-F-0315](#), issued July 10, 2017). Specifically, the EPA's Office of Pesticide Programs receives its funding both from fees paid by pesticide manufacturers and from amounts appropriated by Congress. In both FYs 2014 and 2015, the EPA allocated its pesticide funding to use appropriated amounts, which would expire, and retained funding received from fees. Therefore, significant payroll amounts paid from appropriations were not charged directly to the PRIA Fund or other pesticide programs. This resulted in the loss of the audit trail for reporting separate costs and liabilities for the PRIA Fund and other pesticide programs.

The agency agreed with our findings in the prior reports and is in the process of correcting this weakness. The agency indicated it believes the timekeeping system's cost allocation enhancement will allow for the creation of an audit trail to capture costs incurred by the PRIA Fund and other appropriations that support PRIA-related activities. The agency went live with this new enhancement in October 2016. However, for the FY 2016 financial statements, this continues to be an audit issue, and is considered a material weakness and the basis for the disclaimer of opinion for the FY 2016 statements.

Agency Comments

There are no recommendations in this report, and the agency had no comments.



Paul C. Curtis
Certified Public Accountant
Director, Financial Statement Audits
Office of Inspector General
U.S. Environmental Protection Agency
August 11, 2017

Material Weakness

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1 – EPA Cannot Adequately Support PRIA Fund Costs

The EPA cannot adequately support its FY 2016 PRIA Fund costs. OMB policy states that basic financial statements include a Balance Sheet and Statement of Net Costs, and that the statement of net costs should include the net costs of operations. The EPA's Office of Pesticide Programs receives its funding from both fees paid by pesticide manufacturers and from amounts appropriated by Congress. In FY 2016, the EPA allocated its pesticide funding to use appropriated amounts, which would expire, and retained funding received from fees. Therefore, significant payroll amounts paid from appropriations were not charged directly to the PRIA Fund or other pesticide programs. This resulted in the loss of the audit trail for reporting separate costs and liabilities for the PRIA Fund and other pesticide programs. The EPA developed an allocation methodology to distribute costs funded by EPA appropriations back to PRIA, but the methodology is based upon inconsistent charging of payroll costs between the PRIA Fund and EPA appropriations. Because the EPA cannot adequately support total FY 2016 PRIA Fund costs and liabilities, and because we were unable to determine by other audit procedures the adequacy of amounts allocated, consistency of application, or reasonableness of net costs and liabilities, we disclaimed an opinion on PRIA's FY 2016 financial statements. We consider the EPA's inability to support the PRIA Fund payroll costs a material weakness.

PRIA requires that a set of financial statements be prepared to provide an annual accounting of expenditures and collections for the PRIA program. OMB Circular A-136 requires that these statements include a Statement of Net Costs, under which net costs of operations are reported. The PRIA Fund's costs of operations are supported by several sources: maintenance fees, registration and reregistration fees, and EPA appropriations.

In FY 2016, the EPA allocated its pesticide funding to use appropriated amounts that would expire, and to retain funding received from fees. Significant payroll amounts were paid from appropriations and not charged directly to PRIA. This resulted in the loss of the audit trail for reporting separate PRIA Fund costs. The EPA adopted an allocation methodology to determine the amount of appropriated dollars used to support the PRIA Fund and the EPA's other pesticide programs. However, this methodology is based upon inconsistent and arbitrary charging of the Office of Pesticide Programs' payroll costs between the PRIA Fund and the EPA's other pesticide programs. The inconsistent and arbitrary charging makes the allocation base unreliable, and the methodology cannot support the PRIA Fund operations costs. We consider the inability of the EPA to support FY 2016 PRIA Fund costs to be a material weakness.

We did not determine overall payroll costs for the EPA's pesticide programs to be inaccurate. Our findings are limited to the specific allocation of appropriated amounts to cover payroll costs of the EPA's pesticide programs and accounting for those costs at the program level. At the program level (specifically, for the PRIA Funds), the agency could not provide adequate support, and we could not audit the payroll costs for those funds paid for by appropriated amounts to opine on the adequacy of such amounts.

We previously reported on this issue in the FYs 2014 and 2015 PRIA Fund financial statement audit reports, and the agency agreed with our finding and is taking actions to correct this material weakness. The agency indicated it believes the timekeeping system's cost allocation enhancement will allow for the creation of an audit trail to capture costs incurred by the PRIA

Fund and other appropriations that support PRIA-related activities. The agency went live with this new enhancement in October 2016. We will evaluate the effectiveness of this cost allocation enhancement during our audit of the FY 2017 PRIA Fund financial statements. However, for the FY 2016 financial statements, this continues to be an audit issue, and is considered a material weakness and the basis for the disclaimer of opinion for the FY 2016 statements.

Because this issue was noted in prior audit reports and the agency is taking corrective actions, we make no new recommendations for this material weakness.

**Fiscal Years 2016 and 2015 Pesticide Registration Fund
Financial Statements**



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

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Management's Discussion and Analysis

Under the Federal Insecticide, Fungicide, and Rodenticide Act (FIFRA) and the Federal Food, Drug, and Cosmetic Act (FFDCA), as amended by the Food Quality Protection Act (FQPA) of 1996, the EPA's Pesticide Program registers new pesticides and re-evaluates existing pesticides to ensure that they can be used safely and that levels of residue in food and animal feed are safe (there is a reasonable certainty of no harm). The agency must also conclude that, when used in accordance with labeling and common practices, the product will not generally cause unreasonable adverse effects on the environment.

The Pesticide Registration Improvement Act (PRIA) of 2003 established the Pesticide Registration Fund. PRIA authorizes the collection of Registration service fees, which are deposited into the Registration Fund and made available for obligation to the extent provided in appropriation acts, and are available without fiscal year limitation.

Pesticide Registration

Under FIFRA and FFDCA pesticides must be registered by the EPA. The passage of PRIA introduced deadlines for the agency to complete certain registration actions. EPA expedites the registration of reduced-risk pesticide uses, which generally pose lower risks to people and the environment. Accelerated pesticide reviews provide an incentive for industry to develop and register lower risk pesticides, and the availability of these reduced-risk pesticides provides alternatives to older, potentially more harmful products currently on the market.

PRIA prescribed the amount of the registration service fee and the corresponding decision review time for various categories of registration action. The goal is to create a more predictable evaluation process for affected pesticide registrants and couple the collection of individual fees with specific decision-making periods. The legislation also promotes shorter decision review periods for reduced-risk pesticide applications. PRIA 1, effective on March 23, 2004, authorized collection of registration fees through FY 2008. The Pesticide Registration Improvement Renewal Act (PRIA 2), effective on October 1, 2007, authorized collection of registration fees through FY 2012. The Pesticide Registration Improvement Extension Act (PRIA 3) was effective on October 1, 2012, authorized collection of registration fees through FY 2017.

For a pending or a new application covered by PRIA to be deemed complete and subject to the decision review periods, a registrant is required to pay the applicable fee or receive a waiver from the fee. For most applications, the decision review period starts 21 days after submission of the application, provided that the fee has been paid, fee waiver granted or in the case of a 75% or 50% fee waiver under PRIA 3, the waiver has been granted and the remaining fee has been paid. The legislation provides fee waivers for certain categories of small businesses and minor uses¹.

¹ Minor use pesticides are those that produce relatively little revenue for their manufacturers, for a variety of reasons. They may be registered for a seldom seen pest, or for a crop that is not grown by a large number of producers. However, minor crops include some high revenue fruit, vegetable, and ornamental crops.

Exemption from the requirement to pay a registration service fee is continued under PRIA 3 for applications solely associated with IR-4 petitions². Applications from federal and state agencies are also exempt from registration service fees. If the registrant requests a waiver or reduction of the fee, the decision review period will begin when the agency grants such request or in the case of small business fee waivers, no more than 60 days after receipt of the waiver application. If the agency determines that a fee is required and the waiver is not granted, the decision review period starts after the fee is collected.

Applications received prior to October 1, 2007, were covered by PRIA 1. Applications received between October 1, 2007 and September 30, 2012, were covered by PRIA 2³ and applications received on or after October 1, 2012, are covered by PRIA 3. PRIA 3 contains the same audit provision as PRIA 2. PRIA 3 includes new authority to reject an application if it fails a preliminary technical screen. PRIA 3 also increases the fee categories or types of applications covered by PRIA from 140 to 189 and maintains set-asides to support worker protection and applicator training activities as well as IPM grants at levels comparable to PRIA 2.

Enforcement and Compliance Assurance Program Description

The Pesticide Enforcement and Compliance Assurance Program focuses on pesticide product and user compliance. These include problems relating to pesticide worker safety, certification and training of applicators, ineffective antimicrobial products, food safety, adverse effects, risks of pesticides to endangered species, pesticide containers and containment facilities, and e-commerce and misuse. The enforcement and compliance assurance program provides compliance assistance to the regulated community through its National Agriculture Compliance Assistance Center, seminars, guidance documents, brochures, and other forms of communication to ensure knowledge of and compliance with environmental laws.

EPA's grant support to state and tribal pesticide programs emphasizes its commitment to maintaining a strong compliance and enforcement presence. Agency FIFRA Cooperative Agreement priorities for FY 2015 – FY 2017 include the enforcement of worker protection standards and pesticide applicator certification; compliance monitoring and enforcement activities related to the pesticide container and containment rules, the revised soil fumigant labels, compliance of supplemental distributor products, contact manufacturing and program performance reporting. Core program activities include inspections of producing establishments; dealers/distributors/retailers; e-commerce; imports and exports, and pesticide misuse.

² The IR-4 (Interregional Research Project No.4) program is involved in making sure that pesticides are registered for use on minor crops. IR-4 helps by conducting research on minor use pesticides, pesticides that would not otherwise be profitable to manufacture.

³Out of approximately 7,889 actions completed under PRIA 2, more than 99.0% were completed on or before the PRIA 2 due date.

Additionally, through the Cooperative Agreements we support inspector training and training for state/tribal senior managers, scientists, and supervisors.

Highlights and Accomplishments

Registration Financial Perspective

During FY 2016, the Agency's obligations charged against the PRIA Fund for the cost of registration were \$18.7 million and 60.8 work-years. Of this amount, OPP obligated \$8.4 million in PC&B.

Appropriated funds are used in addition to Registration funds. In FY 2016, the Enacted Operating Plan included approximately \$32.6 million in appropriated funds for registration activities.

The Fund has two types of receipts: fee collections and interest earned on investments. Of the \$19.1 million in FY 2016 net receipts, more than 99.9% were fee collections.

Registration Program Performance Measures

The following measures support the program's strategic goals ensuring the safety of chemicals and Pollution Prevention.

Measure 1: Number of new active ingredients registered.

Results: In FY 2016, EPA registered 20 new active ingredients, including 13 biopesticides, 3 antimicrobials, and 4 conventional pesticides. In addition, EPA approved an import tolerance for 2 new active ingredients. This measure includes both reduced-risk and non-reduced-risk pesticides.

Measure 2: Progress in Registering Reduced-risk Pesticides.

Results: In FY 2016, EPA registered 8 reduced-risk new active ingredients, all of which were biopesticides. Biological pesticides are 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 8 biopesticide new active ingredients are counted as reduced-risk pesticides. Conventional "reduced risk" pesticides have one or more of the following advantages over currently registered pesticides: low impact on human health, low toxicity to non-target organisms, low potential for groundwater contamination, lower use rates, low pest resistance potential, and compatibility with integrated pest management strategies.

Measure 3: Number of New Food Uses Registered.

Results: EPA registered 207 new food uses for previously registered active ingredients. Of these new uses, 203 food uses were for conventional pesticides, 1 was for an antimicrobial pesticide, and 3 were for biopesticides.

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

Results: Included in the new food uses registered are 24 reduced-risk use associated with 5 conventional pesticides, as well as the 3 biopesticide new uses, for a total of 27 reduced-risk new uses.

**PRINCIPAL
FINANCIAL STATEMENTS**

Principal Financial Statements

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United States Environmental Protection Agency
PRIA
Balance Sheet
As of September 30, 2016 and 2015
(Dollars in Thousands)

	FY 2016	FY 2015
Assets:		
Intragovernmental:		
Fund Balance With Treasury (Note 2)	\$ 22,471	\$ 20,658
Other (Note 3)	8	6
Total Intragovernmental	22,479	20,664
Accounts Receivable, Net (Note 5)	-	15
Property, Plant & Equipment, Net (Note 4)	1,536	1,900
Total Assets	\$ 24,015	\$ 22,579
 Liabilities:		
Intragovernmental:		
Accounts Payable and Accrued Liabilities	59	25
Other (Note 5)	248	204
Total Intragovernmental	307	229
Accounts Payable & Accrued Liabilities	602	555
Payroll & Benefits Payable (Note 6)	1,640	1,673
Other (Note 5)	20,494	19,104
Total Liabilities	\$ 23,043	\$ 21,561
 Net Position:		
Cumulative Results of Operations - Funds from Dedicated Collections	972	1,018
Total Net Position	972	1,018
Total Liabilities and Net Position	\$ 24,015	\$ 22,579

The accompanying footnotes are an integral part of these financial statements

United States Environmental Protection Agency
PRIA
Statement of Net Cost
For the Fiscal Years Ending September 30, 2016 and 2015
(Dollars in Thousands)

	FY 2016	FY 2015
Costs:		
Gross Costs (Note 9)	\$ 17,754	\$ 16,136
Expenses from Other Appropriations (Note 7)	31,134	38,346
Total Costs	48,888	54,482
Less:		
Earned Revenue (Note 8 and 9)	20,677	18,985
Net Cost of Operations	\$ 28,211	\$ 35,497

The accompanying footnotes are an integral part of these financial statements

For the Fiscal Years Ending September 30, 2016 and 2015
(Dollars in Thousands)

	FY 2016	FY 2015
Cumulative Results of Operations:		
Net Position - Beginning of Period	\$ 1,018	\$ 1,881
Beginning Balances	1,018	1,881
Budgetary Financing Sources:		
Nonexchange Revenue - Securities Investment	15	1
Nonexchange Revenue - Other	(3,435)	(4,067)
Transfers In/Out	-	(164)
Income from Other Appropriations (Note 7)	31,134	38,346
Total Budgetary Financing Sources	27,714	34,116
Other Financing Sources (Non-Exchange)		
Imputed Financing Sources	451	518
Total Other Financing Sources	451	518
Net Cost of Operations	(28,211)	(35,497)
Net Change	(46)	(863)
Cumulative Results of Operations	\$ 972	\$ 1,018

The accompanying footnotes are an integral part of these financial statements

United States Environmental Protection Agency
PRIA
Statement of Budgetary Resources
For the Fiscal Years Ending September 30, 2016 and 2015
(Dollars in Thousands)

	<u>FY 2016</u>	<u>FY 2015</u>
Budgetary Resources		
Unobligated balance, brought forward, October 1:	\$ 13,540	\$ 12,510
Unobligated Balance Brought Forward, October 1	13,540	12,510
Recoveries of prior year unpaid obligations	366	227
Unobligated balance from prior year budget authority, net	13,906	12,737
Appropriations (discretionary and mandatory)	18,609	16,081
Spending Authority from offsetting collection (discretionary and mandatory)	-	(14)
Total Budgetary Resources	\$ 32,515	\$ 28,804
Status of Budgetary Resources		
Obligations Incurred	19,626	15,264
Unobligated Balance, end of year:		
Apportioned	9,355	13,540
Unapportioned	3,533	-
Total Unobligated balance, end of period	12,889	13,540
Total Status of Budgetary Resources	\$ 32,515	\$ 28,804
Change in Obligated Balance		
Unpaid Obligations:		
Unpaid obligations, brought forward, October 1 (gross)	6,285	5,338
Obligated balance, start of year (net), before adjustments	6,285	5,338
Obligated balance, start of year (net), as adjusted	6,285	5,338
Obligations incurred, net	19,626	15,264
Outlays (gross)	(16,491)	(14,090)
Recoveries of prior year unpaid obligations	(366)	(227)
Obligated balance, end of period		
Unpaid obligations, end of year (gross)	9,054	6,285
Obligated balance, end of period (net)	\$ 9,054	\$ 6,285
Budget authority and outlays, net		
Budget authority, gross (discretionary and mandatory)	18,609	16,067
Actual offsetting collections (discretionary and mandatory)	-	14
Budget Authority, net (discretionary and mandatory)	\$ 18,609	\$ 16,081
Outlays, gross (discretionary and mandatory)	16,491	14,090
Actual offsetting collections (discretionary and mandatory)	-	14
Outlays, net (discretionary and mandatory)	16,491	14,104
Distributed offsetting receipts	(18,304)	(16,081)
Agency outlays, net (discretionary and mandatory)	\$ (1,813)	\$ (1,977)

The accompanying footnotes are an integral part of these financial statements

Environmental Protection Agency
PRIA
Notes to Financial Statements
For the Fiscal Years Ending September 30, 2015 and 2014
(Dollars in Thousands)

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The U.S. Environmental Protection Agency (EPA or Agency) 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 Pesticide Registration Fund (PRIA) is authorized under the Pesticide Registration Improvement Act of 2003 (which amended the Federal Insecticide, Fungicide, and Rodenticide Act (FIFRA)), and became effective on March 23, 2004. This Act authorizes the EPA to assess and collect pesticide registration service fees on applications submitted to register pesticides covered by this Act, as well as assess and collect fees to register new active ingredients not listed in the Registration Division 2003 Work Plan of the Office of Pesticide Programs. The Pesticide Registration Improvement Renewal Act (commonly referred to as PRIA II) extended the authority to collect pesticide registration service fees through FY 2012. PRIA II became effective October 1, 2007. PRIA II was reauthorized with the passage of the Pesticide Registration Improvement Extension Act (referred to as PRIA III) on September 28, 2012 and became effective 2 days later on October 1, 2012. The PRIA Fund is accounted for under Treasury symbol number 68X5374.

The PRIA fund may charge some administrative costs directly to the fund and charge the remainder of the administrative costs to Agency-wide appropriations. Costs funded by Agency-wide appropriations for FYs 2016 and 2015 were \$31,134 thousand and \$38,346 thousand, respectively. This amount was included as Income from Other Appropriations on the Statement of Changes in Net Position and as Expenses from Other Appropriations on the Statement of Net Cost for FYs 2016 and 2015.

B. Basis of Presentation

These financial statements have been prepared to report the financial position and results of operations of the EPA for the Pesticide Registration Fund (PRIA) as required by the Chief Financial Officers Act of 1990 and the Pesticide Registration Improvement Act (PRIA) of 2003. In the prior years, pesticide registration was included in the FIFRA financial statements. The reports have been prepared from the books and records of the EPA in accordance with Office of Management and Budget (OMB) Circular A-136 *Financial Reporting Requirements*, and the

EPA's accounting policies which are summarized in this note. These statements are therefore different from the financial reports also prepared by the EPA pursuant to OMB directives that are used to monitor and control the EPA's use of budgetary resources. The balances in these reports have been updated from the EPA consolidated financial statements to reflect the use of FY 2016 cost factors for calculating imputed costs for Federal civilian benefits programs. These updates impact the Balance Sheet, Statement of Net Cost, and Statement of Changes in Net Position.

C. Budgets and Budgetary Accounting

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

D. Basis of Accounting

Generally Accepted Accounting Principles (GAAP) for Federal entities is the standard prescribed by the Federal Accounting Standards Advisory Board (FASAB), which is the official standard setting body for the federal government. The financial statements are prepared in accordance with GAAP for federal entities.

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

E. Revenues and Other Financing Sources

For FYs 2016 and 2015, PRIA received funding from fees collected from registrants requesting pesticide registrations. For FYs 2016 and 2015, revenues were recognized from fee collections to the extent that expenses are incurred during the fiscal year.

F. Funds with the Treasury

The PRIA fund deposits receipts and processes disbursements through its operating account maintained at the U.S. Department of the Treasury.

G. Investments in U. S. Government Securities

Investments in U. S. government securities are maintained by Treasury and are reported at amortized cost net of unamortized discounts. Discounts are amortized over the term of the investments and reported as interest income. PRIA holds the investments to maturity, unless

needed to finance operations of the fund. No provision is made for unrealized gains or losses on these securities because, in the majority of cases, they are held to maturity.

H. General Property, Plant and Equipment

Purchases of the EPA-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 basic straight-line method over the specific asset's useful life, ranging from two to fifteen years. The EPA shows property, plant and equipment at net of depreciation on its audited financial statements.

All funds (except for the Working Capital Fund) capitalize software if those investments are considered Capital Planning and Investment Control (CPIC) or CPIC Lite systems with the provisions of Statement of Federal Financial Accounting Standards (SFFAS) No. 10, "Accounting for Internal Use Software." Once software enters the production life cycle phase, it is depreciated using the straight-line method over the specific asset's useful life ranging from two to five years.

I. Liabilities

Liabilities represent the amount of monies or other resources that are likely to be paid by the Agency as the result of an Agency transaction or event that has already occurred and can be reasonably estimated. However, no liability can be paid by the Agency without an appropriation or other collections. Liabilities for which an appropriation has not been enacted are classified as unfunded liabilities and there is no certainty that the appropriations will be enacted. For PRIA, liabilities are liquidated from fee receipts, since PRIA receives no appropriation. Liabilities of the Agency arising from anything other than contracts can be abrogated by the Government acting in its sovereign capacity.

J. Accrued Unfunded Annual Leave

Annual, sick and other leave is expensed as taken during the fiscal year. 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, 1987, may participate in the Civil Service Retirement System (CSRS). On January 1, 1984, 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.

L. Offsetting Receipts

Beginning in FY 2007 OMB Circular A-136, *Financial Reporting Requirements*, requires that the amount of distributed offsetting receipts reported in the Statement of Budgetary Resources (SBR) should equal the amount recorded as offsetting receipts by the Department of the Treasury (Treasury). Pesticide Registration Fees collected under PRIA are considered to be offsetting receipts by Treasury.

M. Use of Estimates

The preparation of financial statements requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

N. Prior Period Adjustments and Restatements

Prior period adjustments, if any, are made in accordance with SFFAS No. 21, "Reporting Corrections of Errors and Changes in Accounting Principles." Specifically, prior period adjustments will only be made for material prior period errors to: (1) the current period financial statements, and (2) the prior period financial statements presented for comparison. Adjustments related to changes in accounting principles will only be made to the current period financial statements, but not to prior period financial statements presented for comparison.

Note 2. Fund Balance with Treasury

	FY 2016	FY 2015
Revolving Funds: Entity Assets	<u>\$ 22,471</u>	<u>\$ 20,658</u>

Note 3. Other Assets-Advances to Working Capital Fund

PRIA advances funds to the EPA’s Working Capital Fund to pay for computer, postage, and other administrative support services. As of September 30, 2016 and 2015, funds advanced that will be applied to future costs as incurred were \$8 thousand and \$6 thousand, respectively.

Note 4. General Property, Plant and Equipment

General property, plant and equipment includes the EPA-Held personal property, software, and software in development.

As of September 30, 2016 and 2015, General Property, Plant and Equipment consist of the following:

	FY 2016			FY 2015		
	Acquisition Value	Accumulated Depreciation	Net Book Value	Acquisition Value	Accumulated Depreciation	Net Book Value
EPA-Held Equipment	\$ 35	(35)	-	173	(167)	6
Software	5,698	(4,162)	1,536	6,019	(4,125)	1,894
Total	<u>\$ 5,733</u>	<u>(4,197)</u>	<u>1,536</u>	<u>6,192</u>	<u>(4,292)</u>	<u>1,900</u>

Note 5. Other Liabilities

For FYs 2016 and 2015, Payroll and Benefits Payable, non-federal, are presented on a separate line of the Balance Sheet and in a separate footnote (see Note 6).

	<u>FY 2016</u>	<u>FY 2015</u>
Other Intragovernmental Liabilities - Covered by Budgetary Resources		
Employer Contributions - Payroll	\$ 248	\$ 204
Total	<u>\$ 248</u>	<u>\$ 204</u>
Other Non-Federal Liabilities - Covered by Budgetary Resources		
Advances from Non-Federal Entities	20,494	19,104
Total	<u>\$ 20,494</u>	<u>\$ 19,104</u>

Note 6. Payroll and Benefits Payable, Non-Federal:

	<u>FY 2016</u>	<u>FY 2015</u>
Covered by Budgetary Resources		
Accrued Payroll Payable to Employees	\$ 1,192	\$ 820
Withholdings Payable	54	191
Thrift Savings Plan Benefits Payable	52	41
Total	<u>\$ 1,298</u>	<u>\$ 1,052</u>
Not Covered by Budgetary Resources		
Unfunded Annual Leave	342	621
Total	<u>\$ 342</u>	<u>\$ 621</u>

At various periods throughout FY 2016 and FY 2015 employees with their associated payroll costs were transferred from PRIA to the Environmental Programs and Management (EPM) appropriation. (See graph in Note 7 below showing trend of hours charged per month to the PRIA fund for FYs 2016 and 2015.) These employees were transferred in order to keep PRIA's obligations and disbursements within budgetary limits.

This process has led to variations between the year-end liabilities of FYs 2016 and 2015. The liabilities covered by budgetary resources (both intragovernmental and non-Federal) represent unpaid payroll and benefits at year-end. For FY 2016 Pay Period 26, sixty five employees were charging a portion of their salary and benefits to PRIA. As of September 30, 2016, the liabilities were \$248 thousand and \$1,298 thousand for employer contributions and accrued funded payroll and benefits as compared to FY 2015's balances of \$204 thousand and \$1,052 thousand, respectively.

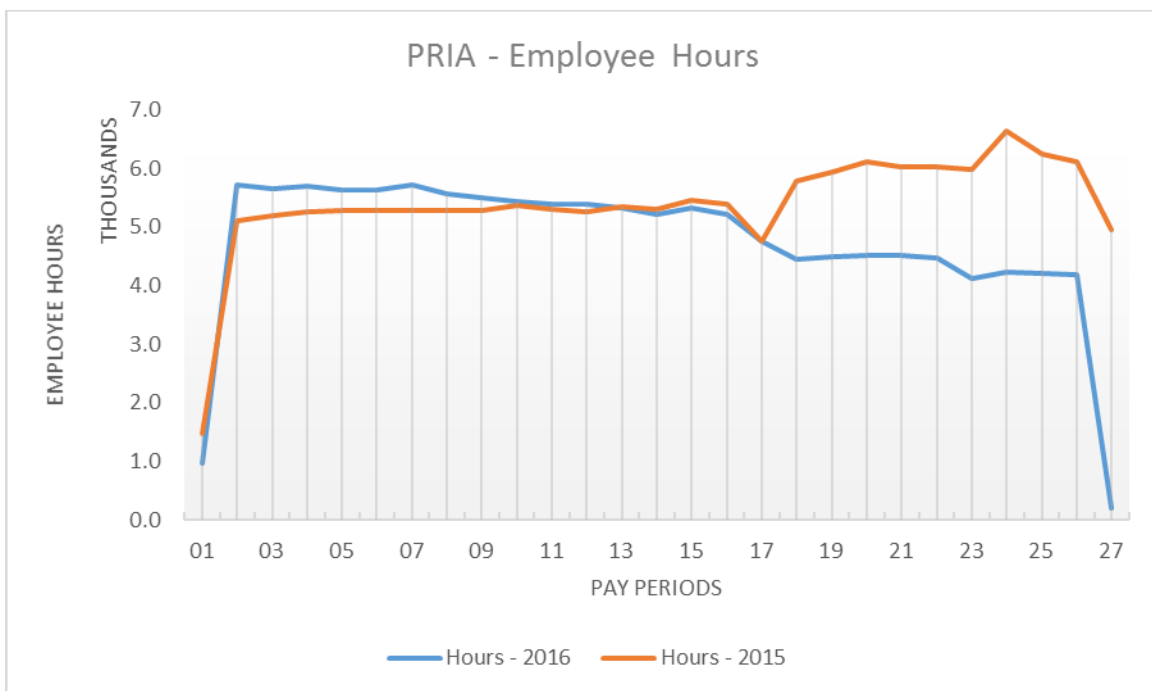
In contrast, the unfunded annual leave liability is a longer term liability than the funded liabilities. At various periods throughout FY 2016 and FY 2015, approximately 93 and 109 employees, respectively, in total have been under PRIA’s accountability. As of September 30, 2016 and 2015 liability balances for unfunded annual leave were accrued to cover these employees for a total of \$342 thousand and \$621 thousand, respectively.

Note 7. 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 2016 and 2015, the EPA had two appropriations which funded a variety of programmatic and non-programmatic activities across the Agency, subject to statutory requirements. The EPM appropriation was created to fund personnel compensation and benefits, travel, procurement, and contract activities. Transfers of employees from PRIA to EPM at various times during FYs 2016 and 2015 (see Note 6) resulted in a decrease in payroll expenses in EPM, and these costs financed by EPM are reflected as a decrease in the Expenses from Other Appropriations on the Statement of Net Cost. The decreased 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 transfer of employees and their associated costs during FYs 2016 and 2015 are shown below.



The EPM costs related to PRIA are allocated based on specific EPM program codes which have been designated for Pesticide registration activities. As illustrated below, there is no impact on PRIA's Statement of Changes in Net Position.

	Income from Other Appropriations	Expenses from Other Appropriations	Net Effect
FY 2016	\$ 31,134	31,134	-
FY 2015	\$ 38,346	38,346	-

Note 8. Exchange Revenues, Statement of Net Cost

For FYs 2016 and 2015, the exchange revenues reported on the Statement of Net Cost consists of non-Federal amounts.

Note 9. Intragovernmental Costs and Exchange Revenue

Costs:	FY 2016	FY 2015
Intragovernmental	\$ 3,192	\$ 2,985
With the Public	14,562	13,151
Expenses from Other Appropriations	31,134	38,346
Total Costs	48,888	54,482
Revenue:		
With the Public	20,677	18,985
Total Revenue	20,677	18,985
Net Cost of Operations:	\$ 28,211	\$ 35,497

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

Note 10. Reconciliation of Net Cost of Operations to Budget

	<u>FY 2016</u>	<u>FY 2015</u>
Resources Used to Finance Activities:		
Budgetary Resources Obligated		
Obligations Incurred	\$ 19,626	\$ 15,264
Less: Spending Authority from Offsetting Collections and Recoveries	(366)	(213)
Obligations, Net of Offsetting Collections	19,260	15,051
Less: Offsetting Receipts	(18,304)	(16,081)
Net Obligations	956	(1,030)
Other Resources		
Imputed Financing Sources	451	518
Income from Other Appropriations	31,134	38,346
Net Other Resources Used to Finance Activities	31,585	38,864
 Total Resources Used To Finance Activities	 \$ <u>32,541</u>	 \$ <u>37,834</u>
Resources Used to Finance Items		
Not Part of the Net Cost of Operations:		
Change in Budgetary Resources Obligated	(1,776)	(248)
Resources that Fund Prior Periods Expenses	(280)	-
Offsetting Receipts Not Affecting Net Cost	18,304	16,081
Resources that Finance Asset Acquisition	321	-
 Total Resources Used to Finance Items Not Part of the Net Cost of Operations	 <u>16,569</u>	 <u>15,833</u>
 Total Resources Used to Finance the Net Cost of Operations	 \$ <u>49,110</u>	 \$ <u>53,667</u>
 Components of the Net Cost of Operations that Will		
Not Require or Generate Resources in the Current Period:		
Components Requiring or Generating Resources in Future Periods:		
Increase in Annual Leave Liability	(280)	525
Increase in Public Exchange Revenue Receivables	(20,677)	(18,985)
Total Components of Net Cost of Operations that Require or Generate Resources in Future Periods	(20,957)	(18,460)
Components Not Requiring/Generating Resources:		
Depreciation and Amortization	43	305
Expenses Not Requiring Budgetary Resources	15	(15)
Total Components of Net Cost that Will Not Require or Generate Resources	58	290
 Total Components of Net Cost of Operations That Will Not Require or Generate Resources in the Current Period	 <u>(20,899)</u>	 <u>(18,170)</u>
 Net Cost of Operations	 \$ <u>28,211</u>	 \$ <u>35,497</u>

Distribution

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Chief of Staff for Operations
Deputy Chief of Staff for Operations
Chief Financial Officer
Agency Follow-Up Coordinator
Assistant Administrator for Chemical Safety and Pollution Prevention
General Counsel
Associate Administrator for Congressional and Intergovernmental Relations
Associate Administrator for Public Affairs
Director, Office of Pesticide Programs, Office of Chemical Safety and Pollution Prevention
Deputy Director, Office of Pesticide Programs, Office of Chemical Safety and Pollution Prevention
Senior Advisor, FIFRA & PRIA Implementation, Office of Pesticide Programs, Office of Chemical Safety and Pollution Prevention
Director, Biopesticides and Pollution Prevention Division, Office of Pesticide Programs, Office of Chemical Safety and Pollution Prevention
Director, Pesticide Re-Evaluation Division, Office of pesticide Programs, Office of Chemical Safety and Pollution Prevention
Director, Registration Division, Office of Pesticide Programs, Office of Chemical Safety and Pollution Prevention
Director, Antimicrobials Division, Office of Pesticide Programs, Office of Chemical Safety and Pollution Prevention
Director, Information Technology and Resources Management Division, Office of Pesticide Programs, Office of Chemical Safety and Pollution Prevention
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Deputy Controller, Office of the Controller, Office of the Chief Financial Officer
Director, Accounting and Cost Analysis Division, Office of the Chief Financial Officer
Director, Policy, Training, and Accountability Division, Office of the Chief Financial Officer
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Audit Follow-Up Coordinator, Washington Finance Center, Office of the Chief Financial Officer
Audit Follow-Up Coordinator, Office of the Chief Financial Officer
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FIFRA & PRIA Audit Coordinator, Office of Pesticide Programs, Office of Chemical Safety and Pollution Prevention