

Audit of the EPA's Fiscal Years 2022 and 2021 (Restated) Pesticides Reregistration and Expedited Processing Fund Financial Statements

October 17, 2023 | Report No. 24-F-0003



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Abbreviations

EPA	U.S. Environmental Protection Agency
FIFRA	Federal Insecticide, Fungicide, and Rodenticide Act
FY	Fiscal Year
OIG	Office of Inspector General
U.S.C.	United States Code

Cover Image

A tractor in a field applying pesticides. (EPA image)

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At a Glance

Audit of the EPA's Fiscal Years 2022 and 2021 (Restated) Pesticides Reregistration and Expedited Processing Fund Financial Statements

Why We Did This Audit

To accomplish this objective:

The Food Quality Protection Act requires that the U.S. Environmental Protection Agency Office of Inspector General perform an annual audit of the financial statements for the Pesticides Reregistration and Expedited Processing Fund.

The EPA is responsible for reassessing the safety of older pesticide registrations against modern health and environmental testing standards. This process is known as reregistration.

To expedite the reregistration process, Congress authorized the EPA to collect fees from pesticide manufacturers. The EPA deposits these fees into the Pesticides Reregistration and Expedited Processing Fund. Each year, the Agency's Office of the Chief Financial Officer prepares financial statements that present information about the fund and the EPA's progress in reregistering pesticides.

To support this EPA mission-related effort:

- *Operating efficiently and effectively.*

To address this top EPA management challenge:

- *Managing business operations and resources.*

Address inquiries to our public affairs office at (202) 566-2391 or OIG.PublicAffairs@epa.gov.

[List of OIG reports.](#)

The EPA Received an Unmodified Opinion for Fiscal Years 2022 and 2021 (Restated)

We rendered an unmodified opinion on the EPA's fiscal years 2022 and 2021 (restated) Pesticides Reregistration and Expedited Processing Fund, also known as the Federal Insecticide, Fungicide, and Rodenticide Act, or FIFRA, Fund, financial statements, meaning that the statements were fairly presented and free of material misstatement.

We found the fund's financial statements to be fairly presented and free of material misstatement.

Material Weakness and Significant Deficiency Noted

We noted the following material weakness: the EPA did not allocate expenses totaling approximately \$1.2 million to the FIFRA Fund that it paid to the U.S. General Services Administration for the use of government facilities and to the U.S. Department of Homeland Security for federal protective services.

We noted the following significant deficiency: the EPA miscalculated the restatement balances for Software in Development for the FIFRA Fund financial statements note 15, "Restatements," overstating the balance by \$66,622.

Compliance with Applicable Laws, Regulations, Contracts, and Grant Agreements

We did not identify any noncompliance that would result in a material misstatement to the audited financial statements. In addition, the Agency was in compliance with the statutory performance measures.

Recommendations and Planned Agency Corrective Actions

We recommend that the chief financial officer record an adjustment to recognize rent and federal protective services expenses for the FY 2022 FIFRA Fund financial statements and correct the restatement amount for the Software in Development to accurately capture the amounts for note 15, "Restatements."

The EPA agreed with the recommendations and completed the corrective actions.



OFFICE OF INSPECTOR GENERAL
U.S. ENVIRONMENTAL PROTECTION AGENCY

October 17, 2023

MEMORANDUM

SUBJECT: Audit of the EPA's Fiscal Years 2022 and 2021 (Restated) Pesticides Reregistration and Expedited Processing Fund Financial Statements
Report No. 24-F-0003

FROM: Damon Jackson, Director *Damon Jackson*
Financial Directorate
Office of Audit

TO: Faisal Amin, Chief Financial Officer

Michal Ilana Freedhoff, Assistant Administrator
Office of Chemical Safety and Pollution Prevention

This is our report on the subject audit conducted by the U.S. Environmental Protection Agency Office of Inspector General. The project number for this audit was [OA-FY23-0048](#). This report contains findings that describe the problems the OIG has identified and the corrective actions the OIG recommends. Final determination on matters in this report will be made by EPA managers in accordance with established audit resolution procedures.

The Office of the Chief Financial Officer is responsible for the issues discussed in the report.

In accordance with EPA Manual 2750, your office provided and completed acceptable planned corrective actions in response to the OIG's recommendations. All recommendations are closed, and no final response to this report is required. If you submit a response, however, it will be posted on the OIG's website, along with our memorandum commenting on your response. Your response should be provided as an Adobe PDF file that complies with 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.epaoig.gov.

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Inspector General's Audit Report on the EPA's Fiscal Years 2022 and 2021 (Restated) Pesticides Reregistration and Expedited Processing Fund Financial Statements

The Administrator
U.S. Environmental Protection Agency

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the U.S. Environmental Protection Agency's Pesticides Reregistration and Expedited Processing Fund, also known as the Federal Insecticide, Fungicide, and Rodenticide Act, or FIFRA, Fund. These statements comprise the consolidated balance sheets, as of September 30, 2022 and 2021 (restated); the related statements of net cost and changes in net position; the statement of budgetary resources for the years then ended; and the related notes to the financial statements.

In our opinion, the financial statements, including the accompanying notes, present fairly, in all material respects, the assets, liabilities, net position, net cost, changes in net position, and budgetary resources of the EPA's FIFRA Fund as of and for the years ended September 30, 2022 and 2021 (restated), in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, known as generally accepted auditing standards. Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Financial Statements" section of our report. We are required to be independent of the EPA and to meet our ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter Restatements of Fiscal Year 2021

As described in note 15, "Restatements," to the financial statements, the EPA restated its fiscal year 2021 FIFRA Fund financial statements. During FY 2022, the EPA capitalized Software in Development costs that were expensed in FY 2021 and prior. These expenses should have been capitalized in those respective years. As a result, income and expenses from other appropriations were overstated, and the changes also impacted the FY 2021 balance sheet, statement of net cost, and statement of changes in net position.

Our opinion is not modified with respect to these corrections.

Responsibilities of Management for the Financial Statements

The EPA's 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 and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements, as a whole, are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the EPA's internal control. Accordingly, we express no such opinion.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

We are also required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Report on Internal Control over Financial Reporting

Results of Our Consideration of Internal Control over Financial Reporting

Our consideration of internal control was for the limited purpose of expressing an opinion on the fund's financial statements and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies; therefore, deficiencies in internal control may exist that were not identified during our audit. A *deficiency* in internal control over financial reporting 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 over financial reporting, 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 over financial reporting that is less severe than a material weakness yet important enough to merit attention by those charged with governance.

We noted one matter that we consider to be a material weakness and one matter that we consider to be a significant deficiency. These issues are summarized below and detailed in Attachments 1 and 2. We also communicated less significant internal control matters to the Agency during the course of this audit and will not issue a separate management letter.

Material Weakness

The EPA Did Not Allocate the Expenses It Paid to the U.S. General Services Administration for the Use of Government Facilities and to the U.S. Department of Homeland Security for Federal Protective Services

We found that the EPA did not allocate expenses totaling approximately \$1.2 million to the FIFRA Fund for rent paid to the General Services Administration for the use of government facilities and for federal protective services paid to the Department of Homeland Security. The U.S. Government Accountability Office's [GAO-14-704G](#), *Standards for Internal Control in the Federal Government*, known as the Green Book, requires that federal entities have internal control activities to ensure that they provide accurate and timely recording of transactions and events. The expenses were not allocated because EPA personnel did not request FIFRA funding allocations or add FIFRA funds to the obligations for rent or federal protective services in FY 2022. If the EPA does not exercise due diligence when preparing the financial statements, it risks compromising the accuracy of the financial statements and the reliance on them to be free of material misstatement.

Significant Deficiency

The EPA Miscalculated the Restatement Balances for Software in Development for the FIFRA Fund Financial Statements Note 15, “Restatements”

We found that the EPA miscalculated the restated capitalized expenditure balance for the Software in Development in the FIFRA Fund restatement note, overstating the balance by \$66,621.97. The Government Accountability Office’s Green Book requires that federal entities establish internal control activities to ensure that they provide accurate and timely recording of transactions and events. EPA personnel used the obligation fiscal year instead of the actual expenses fiscal year to calculate the restatement. If the EPA does not exercise due diligence when preparing the financial statements, it risks compromising the accuracy of the financial statements and the reliance on them to be free of material misstatement.

Basis for Results of Our Consideration of Internal Control over Financial Reporting

We performed our procedures related to the fund’s internal control over financial reporting in accordance with government auditing standards generally accepted in the United States of America.

Responsibilities of Management for Internal Control over Financial Reporting

The EPA’s management is responsible for designing, implementing, and maintaining effective internal control over financial reporting relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor’s Responsibilities for Internal Control over Financial Reporting

In planning and performing our audit of the FIFRA Fund financial statements as of and for the year ended September 30, 2022, in accordance with generally accepted auditing standards, we considered the fund’s internal control over financial reporting as a basis for designing our audit procedures, which are appropriate in the circumstances for the purpose of expressing an opinion on the financial statements and to comply with Office of Management and Budget Bulletin 22-01, *Audit Requirements for Federal Financial Statements*, but not to express an opinion on the effectiveness of the fund’s internal control. Accordingly, we do not express an opinion on the effectiveness of the fund’s internal control over financial reporting.

Intended Purpose of Report on Internal Control over Financial Reporting

Because of inherent limitations in internal control, misstatements, losses, or noncompliance may nevertheless occur and not be detected.

Comparison of the EPA’s Federal Managers’ Financial Integrity Act Report with Our Evaluation of Internal Control

Office of Management and Budget Bulletin 22-01 requires the Office of Inspector General to compare material weaknesses disclosed during the audit with those material weaknesses reported in the Agency’s Federal Managers’ Financial Integrity Act report that relate to the financial statements. The OIG is also required to identify material weaknesses disclosed by the audit that were not reported in the Agency’s Federal Managers’ Financial Integrity Act report. The Agency’s report is prepared and submitted at the consolidated level, of which the FIFRA Fund is a component. Accordingly, there are no findings to report at the FIFRA Fund level.

Report on Compliance with Laws, Regulations, Contracts, and Grant Agreements

Results of Our Tests for Compliance with Laws, Regulations, Contracts, and Grant Agreements

Providing an opinion on compliance with provisions of laws, regulations, contracts, and grant agreements was not an objective of our audit, and 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.

Basis of Results of Our Tests for Compliance with Laws, Regulations, Contracts, and Grant Agreements

As part of obtaining reasonable assurance about whether the fund’s financial statements are free of material misstatement, we performed tests of the Agency’s 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 the fund’s financial statements.

Responsibilities of Management for Compliance with Laws, Regulations, Contracts, and Grant Agreements

The EPA’s management is responsible for complying with laws, regulations, contracts, and grant agreements applicable to the Agency and the fund.

Auditor’s Responsibilities for Tests of Compliance with Laws, Regulations, Contracts, and Grant Agreements

We also performed certain other limited procedures as described in the American Institute of Certified Public Accountants’ *Codification of Statements on Auditing Standards*, AU-C 250, “Consideration of Laws and Regulations in an Audit of Financial Statements.” Office of Management and Budget Bulletin 22-01 mandates that we evaluate compliance with federal financial statement system requirements, including those referred to in the Federal Financial Management Improvement Act of 1996. We limited our tests

of compliance to these provisions and did not test compliance with all laws and regulations applicable to the EPA.

Intended Purpose of Report on Compliance with Laws, Regulations, Contracts, and Grant Agreements

The purpose of this report is solely to describe the scope of our testing of compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements and the results of that testing and not to provide an opinion on compliance. This report is an integral part of an audit performed in accordance with government auditing standards generally accepted in the United States of America in considering compliance. Accordingly, this report on compliance with laws, regulations, contracts, and grant agreements is not suitable for any other purpose.

Other Governmental Reporting Requirements

Performance Measures

FIFRA, at 7 U.S.C. § 136a-1, requires that the administrator establish and publish annually in the Federal Register performance measures and goals, including the number of products reregistered, canceled, or amended, and the status of the product reregistration. In addition, FIFRA requires the OIG to, among other things, audit and report on the FIFRA Fund fees collected and disbursed and the EPA's achievement of those established performance measures and goals. Based on our audit, we found that the EPA was in compliance with the FIFRA statutory performance measure requirements.

Management's Discussion and Analysis

Our audit was conducted for the purpose of forming an opinion on the FIFRA Fund financial statements as a whole. The "Management's Discussion and Analysis" section is presented for the purpose of providing additional analysis and is not a required part of the basic financial statements. Such information is management's responsibility. We obtained information from the fund's management about its methods for preparing the "Management's Discussion and Analysis" section, and we reviewed this information for consistency with the financial statements.

Our audit was not designed to express an opinion and, accordingly, we do not express an opinion on the "Management's Discussion and Analysis" section. We did not identify any material inconsistencies between the information presented in the fund's financial statements and the information presented in the "Management's Discussion and Analysis" section.

Prior Reports

In the previous audit of the FIFRA Fund's financial statements—EPA OIG Report No. [22-F-0059](#), *The EPA's Fiscal Years 2021 and 2020 Financial Statements for the Pesticides Reregistration and Expedited Processing Fund*, issued September 26, 2022—there were no issues reported.

Damon Jackson

Damon Jackson

Certified Public Accountant

Director, Financial Directorate

Office of Audit

Office of Inspector General

U.S. Environmental Protection Agency

August 18, 2023

Material Weakness

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1 The EPA Did Not Allocate the Expenses It Paid to the General Services Administration for the Use of Government Facilities or to the Department of Homeland Security for Federal Protective Services 9

1 – The EPA Did Not Allocate the Expenses It Paid to the General Services Administration for the Use of Government Facilities or to the Department of Homeland Security for Federal Protective Services

We found that the EPA did not allocate expenses totaling approximately \$1.2 million to the FIFRA Fund for rent paid to the General Services Administration for the use of government facilities and for federal protective services paid to the Department of Homeland Security. The Green Book requires that federal entities have internal control activities to ensure that they provide accurate and timely recording of transactions and events. The expenses were not allocated because EPA personnel did not request FIFRA funding allocations or add FIFRA funds to the obligations for rent or federal protective services in FY 2022. If the EPA does not exercise due diligence when preparing the financial statements, it risks compromising the accuracy of the financial statements and the reliance on them to be free of material misstatement.

The Green Book requires that federal entities have internal control activities to ensure that they provide accurate and timely recording of transactions and events. The Green Book defines the five components of internal control in government. These components are:

- Monitoring.
- Information and communication.
- Control activities.
- Risk Assessment.
- Control environment.

Management should design control activities to achieve objectives and respond to risks. The standards for control activities require appropriate documentation of transactions and internal control.

Management is to clearly document internal control, all transactions, and other significant events in a manner that allows the documentation to be readily available for examination. The standards for control activities require accurate and timely recording of transactions and events.

During our analysis, we found that expenses totaling approximately \$1.2 million were not allocated to the FIFRA Fund for rent paid to the General Services Administration for the use of government facilities (\$1,011,000.00) and for the federal protective services paid to the Department of Homeland Security (\$195,000.00) in FY 2022. Under the EPA's Resource Management Directives System 2520, *Administrative Control of Appropriated and Other Funds*, dated December 2015, "[s]plit funding applies to all procurement transactions that use multiple appropriations where costs are not directly allocable." Unlike prior years, for FY 2022, the Agency did not allocate a portion of the expenses for rent and federal protective services to the FIFRA Fund appropriation each year. FIFRA allocations are based on budgeted amounts that have remained fairly constant over the preceding several years.

EPA personnel did not request FIFRA funding allocations or add FIFRA funds to the obligations for rent or federal protective services in FY 2022. Because the funds were not added to the obligations, no disbursements were charged against the FIFRA appropriation when payments were processed for rent and federal protective services. The EPA informed us that it agreed that the FY 2022 allocation of approximately \$1.2 million should have been recognized and that it would prepare an adjustment for the final financial statements. Furthermore, EPA personnel requested the FYs 2022 and 2023 FIFRA funding allocations for rent and federal protective services together in FY 2023. The FIFRA funds were added to the respective obligations in May 2023.

If the EPA does not exercise due diligence when preparing the financial statements, it risks compromising the accuracy of the financial statements and the reliance of the public and other interested parties on them to be free of material misstatement.

Recommendation

We recommend that the chief financial officer:

1. Record an adjustment to recognize rent and federal protective services expenses for the fiscal year 2022 Federal Insecticide, Fungicide, and Rodenticide Act Fund financial statements.

Agency Response and OIG Assessment

The Agency agreed with our finding and recommendation and completed its corrective action. The adjustment for rent and federal protective services was recorded and included in the final FY 2022 FIFRA Fund financial statements.

Significant Deficiency

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- 1. The EPA Miscalculated the Restatement Balances for Software in Development for the FIFRA Fund Financial Statements Note 15, “Restatements” 12

1 – The EPA Miscalculated the Restatement Balances for Software in Development for the FIFRA Fund Financial Statements Note 15, “Restatements”

We found that the EPA miscalculated the restated capitalized expenditure balance for the Software in Development in the FIFRA Fund restatement note, overstating the balance by \$66,621.97. The Green Book requires that federal entities establish internal control activities to ensure that they provide accurate and timely recording of transactions and events. EPA personnel used the obligation fiscal year instead of the actual expenses fiscal year to calculate the restatement. If the EPA does not exercise due diligence when preparing the financial statements, it risks compromising the accuracy of the financial statements and the reliance on them to be free of material misstatement.

Statement of Federal Financial Accounting Standards No. 10, *Accounting for Internal Use Software*, requires entities to capitalize the costs of software that meet the criteria for general property, plant, and equipment. The software life cycle includes three phases: planning, development, and operations. Capitalized software costs should include the full costs (direct and indirect) incurred during the development phase. The Software in Development general ledger account represents costs incurred only in the development phase and not in the planning and operations phases. The Green Book requires that federal entities have internal control activities to ensure that they provide accurate and timely recording of transactions and events. The Green Book defines the five components of internal control in government. These components are:

- Monitoring.
- Information and communication.
- Control activities.
- Risk Assessment.
- Control environment.

Management should design control activities to achieve objectives and respond to risks. The standards for control activities require appropriate documentation of transactions and internal control.

Management is to clearly document internal control, all transactions, and other significant events in a manner that allows the documentation to be readily available for examination. The standards for control activities require accurate and timely recording of transactions and events.

During our analysis of the FY 2022 FIFRA Fund financial statements, we found that the EPA miscalculated the restated capitalized expenditure balance for Software in Development in note 15, “Restatements.” We noted that the EPA’s total restated balance for the Pesticide Registration Information System Software in Development for FYs 2018 through 2021 was as detailed in Table 1.

Table 1: FYs 2018 through 2021 Pesticide Registration Information System Software in Development costs

Fund	Capitalized expenditures (\$)	Income and expenses from other appropriations (\$)	Total (\$)
FIFRA	11,094,186.83	1,123,915.44	12,218,102.27
Pesticide Registration Improvement Act	6,638,109.35	833,102.57	7,471,211.92
Total	17,732,296.18	1,957,018.01	19,689,314.19

Source: OIG analysis of the EPA’s note support. (EPA OIG table)

However, during our FY 2022 consolidated financial statement audit,¹ the EPA provided us support showing a total amount of \$20,561,590.57 covering the Pesticide Registration Information System Software in Development for FYs 2019 through 2021. Of this amount, the total cost for FIFRA Fund should have been \$12,151,480.30 and not \$12,218,102.27, an overstatement of \$66,621.97.

Per our discussion with the EPA, the difference between the support provided during the FIFRA Fund financial statement audit and the consolidated financial statement audit was because of the use of the obligation fiscal year during the FIFRA Fund financial statement versus the actual expenses fiscal year used during the consolidated financial statements. However, as provided by Statement of Federal Financial Accounting Standards 10, the Agency should have used the expenses for costs incurred and not the obligated amounts. As such, the methodology of accumulating the prior year costs provided different total expenses and fiscal years. The EPA is updating the restatement for the FY 2022 FIFRA Software in Development costs using the fiscal year in which the costs were expended, not by beginning budget fiscal year as provided in the draft statements submitted to the OIG.

If the EPA does not exercise due diligence when preparing the financial statements, it risks compromising the accuracy of the financial statements and the reliance of the public and other interested parties on them to be free of material misstatement.

Recommendation

We recommend that the chief financial officer:

2. Correct the restatement amount for the Software in Development to accurately capture the amounts for note 15, “Restatements.”

Agency Response and OIG Assessment

The Agency agreed with our finding and recommendation and has completed its corrective action. The restated amount was corrected in the final statements to accurately capture the amounts for note 15.

¹ OIG Report No. [22-F-0002](#), *The EPA’s Fiscal Years 2022 and 2021 Consolidated Financial Statements*, issued November 15, 2022.

Status of Recommendations

Rec. No.	Page No.	Recommendation	Status*	Action Official	Planned Completion Date
1	10	Record an adjustment to recognize rent and federal protective services expenses for the fiscal year 2022 Federal Insecticide, Fungicide, and Rodenticide Act Fund financial statements.	C	Chief Financial Officer	8/24/23
2	13	Correct the restatement amount for the Software in Development to accurately capture the amounts for note 15, "Restatements."	C	Chief Financial Officer	8/24/23

* C = Corrective action completed.

R = Recommendation resolved with corrective action pending.

U = Recommendation unresolved with resolution efforts in progress.

***Fiscal Years 2022 and 2021 (with Restatements)
Pesticides Reregistration and Expedited Processing
Fund Financial Statements***

**Fiscal Years 2022 and 2021 (With Restatements)
Pesticides Reregistration and Expedited Processing Fund
Financial Statements**



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

In accordance with FIFRA and FFDCA, the pesticide program administers the Pesticides Reregistration and Expedited Processing Fund (FIFRA fund). As of 1996, fees for maintenance of pesticide registrations are deposited to the FIFRA fund, which is available to the EPA without further appropriation.

Under the FFDCA, EPA sets "tolerances", or maximum residue levels. If a pesticide is intended to be used in a manner that may result in residues in food or animal feed, the applicant must petition EPA for establishment of a tolerance (or exemption from a tolerance). Tolerances are set at levels that ensure a reasonable certainty of no harm from the potential pesticide residues in food combined with other non-occupational exposure.

The passage of the Food Quality Protection Act (FQPA) in 1996 provided for additional fees to support reregistration activities and required 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 1) of 2003 and amendments in 2007, 2012 and 2019, no additional tolerance petition fees were to be deposited to the FIFRA fund through FY 2023. As a result, no additional tolerance petition fees were deposited to the FIFRA fund in FY 2021 and FY 2022. The fourth reauthorization of PRIA, the Pesticide Registration Improvement Act of 2022 (PRIA 5) was signed into law on December 29, 2022 but is effective starting in FY 2023 so does not have bearing for FY 2021 or 2022.

The Pesticide Reregistration and Registration Review Programs

EPA is responsible for re-evaluating the safety of existing pesticides. Since the passage of FIFRA in 1947, scientific analysis techniques have grown much more precise and sophisticated and health and environmental standards have become more stringent. With the 1988 amendments to FIFRA (FIFRA '88), Congress mandated the accelerated reregistration of all products registered prior to November 1, 1984. The statute required completion of Reregistration Eligibility Decisions (REDs) and tolerance reassessment for all food- use active ingredients by 2006.

All REDs for the active ingredients have been completed, the last being completed in FY 2008. A RED is a decision by the Agency defining whether products containing the pesticide active ingredient are eligible or ineligible for reregistration. Following the issuance of the RED, the registrant must comply with the RED by submitting product-specific data and revised labels for each product containing that active ingredient or cancel the product registration. Based on its review of the data, if the product has met all the requirements, the EPA then reregisters the product.

The FQPA introduced a new program called Registration Review which replaced EPA's Pesticide Reregistration and Tolerance Reassessment programs as those programs were completed. Unlike earlier review programs, Registration Review applies to all registered pesticides. EPA reviews each registered pesticide every 15 years to determine whether it still meets the FIFRA standard for registration. In this way, the Agency ensures that all registered pesticides do not pose unreasonable risks to human health or the environment when used as directed on product labeling.

FQPA also reauthorized the collection of maintenance fees through 2001 to complete the review of older pesticides to ensure they meet current standards (increasing annual fees from \$14 million to \$16 million per year through 2000) and required all tolerances (over 9,700) to be reassessed by 2006. The 2002 appropriations bill extended maintenance fees to \$17 million for another year, and the 2003 appropriations extended them to \$21.5 million for that year. Passage of PRIA 1 in FY 2004 extended maintenance fees through FY 2008 (with annual fees totaling \$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 (PRIA 2) in October 2007 extended maintenance fees through FY 2012 (\$22 million each FY). PRIA 2 provided for maintenance fees to offset the costs of registration review beginning in FY 2008.

For pesticides registered before October 1, 2007, EPA had an initial statutory mandate to complete Registration Review decisions by October 1, 2022; there are a total of 726 cases that need to have decisions completed. For each case, the steps in this process include, in this order: opening dockets, developing work plans, completing risk assessments, and making decisions regarding any risk management measures. It is important to open dockets and develop work plans for as many cases as possible early in the process so that there is time to complete the risk assessments and make decisions. In 2021 and 2022, EPA continued completing risk assessments and making decisions to meet its initial statutory deadline of October 1, 2022. At the initial statutory deadline of October 1, 2022, EPA had completed 685 Draft Risk Assessments, 630 Proposed Interim/Proposed Final Decisions, and 582 Interim or Final Decisions. The FY 2023 omnibus appropriations bill, enacted on December 29, 2022, extended the deadline to complete the initial Registration Review of each pesticide or pesticide case to October 1, 2026. EPA is continuing to work on these remaining Registration Review cases.

Congress authorized the collection of maintenance fees from manufacturers to supplement appropriated funds to support reregistration and registration review programs. Maintenance fees are assessed on a product-by-product basis with caps on the maximum number of products for which any single company would have to pay fees, as well as fee reductions for qualified small businesses. Registrations for minor use registrations and public health pesticides are also eligible for waivers and/or refunds of maintenance fees. Fees are deposited into the FIFRA Reregistration and Expedited Processing Fund. By statute, excess monies in the FIFRA Reregistration and Expedited Revolving Processing Fund may be invested. Between 11.1% and 12.5% of collected maintenance fees each year are used to support inert ingredient clearances as well as expedited processing of fast-track amendments. PRIA 3 also had set aside approximately \$800,000 of the collected maintenance fees for fiscal years 2013 through 2017 to enhance specified IT systems.

PRIA 4 became effective March 8, 2019, and raised the maintenance fee annual collection target from \$27.8 million under PRIA 3 to \$31 million through fiscal year 2023. EPA had invoiced for FY 2019 maintenance fees in December 2019 under PRIA 3 authority and using the PRIA 3 collection target of \$27.8M. When PRIA 4 was enacted midway through the fiscal year, rather than reinvoice for the additional \$3.2M to achieve the increased annual target specified in PRIA 4, EPA utilized a provision in PRIA 4 which allows the EPA to average across fiscal years within PRIA 4 to account for over/under

collection in a given fiscal year. For the remaining 4 years of PRIA 4 authority, EPA's collection target will be \$31.8M/year. PRIA 4 replaced the specific IT enhancement set-aside from PRIA 3 with two new maintenance fee set-asides of up to \$500K each annually through fiscal year 2023 for the efficacy guideline development and rulemaking for invertebrate pests of significant public health or economic importance, and the Good Laboratory Practices (GLP) standards compliance monitoring program. PRIA 4 also removed an appropriations constraint on spending FIFRA maintenance fees.

Highlights and Accomplishments

Reregistration and Expedited Processing Fund (FIFRA) Financial Perspective

During FY 2022, the Agency's obligations charged against the Reregistration and Expedited Processing Revolving Fund for the cost of the reregistration, registration review and other FIFRA activities authorized by 7 U.S.C. 136(k)(2)(A) were \$42.1 million and 169.6 work-years. Of this amount, the EPA obligated approximately \$27.2 million for Personnel Compensation and Benefits (PC&B).

Appropriated funds are used in addition to pesticide user fees. In FY 2022, the total appropriations that funded registration review, reregistration and other FIFRA activities authorized by 7 U.S.C. 136(k)(2)(A) were approximately \$10.4 million.

The Fund has two types of receipts: fee collections and interest earned on investments. Of the \$31.6 million in FY 2022 receipts, more than 99.9% were fee collections. Total unobligated balance in the fund at the end of FY 2022 was \$17.6 million.

Registration Review Program (FIFRA) Performance Measures

The following measures support the program's strategic goals under the FY 2022 – FY 2026 Strategic Plan: ensuring the safety of chemicals and pollution prevention.

Measure 2: Number of pesticide registration review dockets opened for registration review cases with statutory completion dates that fall after October 1, 2022.

Results: EPA opened 35 registration review dockets in FY 2022, exceeding the target of 25 dockets opened.

Measure 3: Number of draft risk assessments completed for pesticide registration review cases with statutory completion dates that fall after October 1, 2022.

Results: EPA completed 25 draft risk assessments in FY 2022, exceeding the target of 9 draft risk assessments completed.

Principal Financial Statements

**U.S. Environmental Protection Agency
FIFRA
Balance Sheet
As of September 30, 2022 and 2021 (Restated)
(Dollars in Thousands)**

	2022	(Restated) 2021
ASSETS:		
Intragovernmental:		
Fund Balance With Treasury (Note 2)	\$ 31,338	\$ 38,362
Advances and Prepayments	414	185
Total Intragovernmental	31,752	38,547
Other Than Intragovernmental:		
Accounts Receivable, Net (Note 3)	1	-
General Property Plant and Equipment, Net (Note 5) (Restated)	12,215	9,529
Total Other Than Intragovernmental	12,216	9,529
Total Assets	\$ 43,968	\$ 48,076
LIABILITIES:		
Intragovernmental:		
Other (Note 6)	\$ 2,696	\$ 716
Total Intragovernmental	2,696	716
Other Than Intragovernmental:		
Accounts Payable (Note 4)	120	30
Federal Employee Benefits Payable (Note 10)	3,578	4,026
Advances from Others and Deferred Revenue	27,453	36,362
Other (Note 6)	1,714	1,800
Total Other Than Intragovernmental	32,865	42,218
Total Liabilities	\$ 35,561	\$ 42,934
NET POSITION:		
Cumulative Results of Operations - Funds from Dedicated Collections (Restated)	\$ 8,407	\$ 5,142
Total Net Position	8,407	5,142
Total Liabilities and Net Position	\$ 43,968	\$ 48,076

The accompanying notes are an integral part of these financial statements.
EPA's FY 2022 Annual FIFRA Financial Statements

U.S. Environmental Protection Agency
FIFRA
Statement of Net Cost
For the Fiscal Years Ended September 30, 2022 and 2021 (Restated)
(Dollars in Thousands)

	2022		(Restated) 2021
COSTS			
Gross Costs (Note 13) (Restated)	\$ 39,419	\$	43,768
Expenses from Other Appropriations (Note 11) (Restated)	31,520		40,226
Total Costs	70,939		83,994
Less:			
Earned Revenue (Note 13)	41,140		46,684
NET COST OF OPERATIONS (Note 14) (Restated)	\$ 29,799	\$	37,310

The accompanying notes are an integral part of these financial statements.
EPA's FY 2022 Annual FIFRA Financial Statements

U.S. Environmental Protection Agency
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Statement of Changes in Net Position
For the Fiscal Years Ended September 30, 2022 and 2021 (Restated)
(Dollars in Thousands)

	2022	(Restated) 2021
CUMULATIVE RESULTS OF OPERATIONS:		
Beginning Balance	\$ 5,142	\$ (4,519)
Corrections of Errors (Note 15)	-	4,536
Beginning Balance, as Adjusted	5,142	17
Non-exchange Revenue	98	14
Transfers In/(Out) Without Reimbursement	2	-
Income from Other Appropriations (Notes 11 and 15) (Restated)	31,520	40,226
Imputed Financing	1,444	2,195
Net Cost of Operations (Notes 13, 14 and 15) (Restated)	(29,799)	(37,310)
Net Change in Cumulative Results of Operations (Restated)	3,265	5,125
Total Cumulative Results of Operations (Restated)	8,407	5,142
Net Position (Restated)	\$ 8,407	\$ 5,142

The accompanying notes are an integral part of these financial statements.
EPA's FY 2022 Annual FIFRA Financial Statements

U.S. Environmental Protection Agency
FIFRA
Statement of Budgetary Resources
For the Fiscal Years Ended September 30, 2022 and 2021
(Dollars in Thousands)

	2022	2021
BUDGETARY RESOURCES		
Unobligated Balance From Prior Year Budget Authority, Net (mandatory) (Note 7)	\$ 26,877	\$ 43,842
Spending Authority from Offsetting Collections (mandatory)	32,225	32,155
Total Budgetary Resources	\$ 59,102	\$ 75,997
STATUS OF BUDGETARY RESOURCES		
New Obligations and Upward adjustments (total)	\$ 41,511	\$ 49,832
Unobligated Balance, End of Year:		
Apportioned, Unexpired Accounts	17,068	25,796
Unapportioned, Unexpired Accounts	523	369
Unobligated Balance, End of Year (total): (Note 8)	17,591	26,165
Total Status of Budgetary Resources	\$ 59,102	\$ 75,997
OUTLAYS, NET		
Outlays, Net (total) (mandatory)	\$ 7,122	\$ 14,225
Distributed Offsetting Receipts (-)	-	-
Agency Outlays, Net (mandatory) (Note 14)	\$ 7,122	\$ 14,225

The accompanying notes are an integral part of these financial statements.
EPA's FY 2022 Annual FIFRA Financial Statements

U.S. Environmental Protection Agency
FIFRA
Notes to the Financial Statements
For the Fiscal Years Ended September 30, 2022 and 2021
(Dollars in Thousands)

Note 1. Summary of Significant Accounting Policies

A. Reporting Entities

The EPA was created in 1970 by executive reorganization from various components of other federal agencies 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, apart from 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.

The FIFRA fund may charge some administrative costs directly to the fund and charge the remainder of the administrative costs to Agency-wide appropriations. See Note 11 Income and Expenses from Other Appropriations for amounts included in Income from Other Appropriations on the Statement of Changes in Net Position and as Expenses from Other Appropriations on the Statement of Net Cost.

B. Basis of Presentation

These financial statements have been prepared to report the financial position and results of operations of the 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 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.

C. Budgets and Budgetary Accounting

Funding of the FIFRA Revolving Fund is provided by fees collected from industry to offset costs incurred by the 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 and the American Institute of Certified Public Accountants (AICPA). The financial statements are prepared in accordance with GAAP for federal entities.

U.S. Environmental Protection Agency
FIFRA
Notes to the Financial Statements
For the Fiscal Years Ended September 30, 2022 and 2021
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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 liabilities are incurred, without regard to receipt or payment of cash. Budgetary accounting facilitates compliance with legal constraints and controls over the use of federal funds posted in accordance with OMB directives and the U.S. Treasury regulations.

E. Revenues and Other Financing Sources

The 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) in 2007 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 2022 and 2021, the FIFRA Revolving Fund received funding from maintenance fees collected on existing registered pesticide products and from interest collected on investments in U.S. Government securities. For FYs 2022 and 2021, revenues were recognized from fee collections to the extent that expenses are incurred during the fiscal year.

F. Funds with the Treasury

The FIFRA fund 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. Advances and Prepayments

FIFRA advances funds to the EPA's Working Capital Fund to pay for computer, postage, and other administrative support services.

H. 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, most cases, they are held to maturity.

U.S. Environmental Protection Agency
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Notes to the Financial Statements
For the Fiscal Years Ended September 30, 2022 and 2021
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I. Property, Plant, and Equipment

General property, plant and equipment for FIFRA includes software in production. Internal use software includes purchased commercial off-the-shelf software, contractor developed software and software that was internally developed by Agency employees. In FY 2017, the EPA reviewed its capitalization threshold levels for PP&E. The Agency performed an analysis of the values of software assets, reviewed capitalization threshold from \$250 thousand to \$5 million to better align with major software acquisition investments. The \$5 million threshold will be applied prospectively to software acquisitions and modifications/enhancements placed into service after September 30, 2016. Software assets placed into service prior to October 1, 2016 were capitalized at the \$250 thousand threshold. Internal use software is capitalized at full cost (direct and indirect) and amortized using the straight-line method over its useful life, not exceeding five years.

J. Accounts Receivable and Interest Receivable

FIFRA receivables are mainly for interest receivable on investments.

K. Liabilities

Liabilities represent the amount of monies or other resources that are more likely than not 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 advances from others and deferred revenue, and there is no certainty that the appropriations will be enacted. For FIFRA, advances from others and deferred revenue are liquidated from fee receipts and interest earnings since FIFRA receives no appropriation. Fees collected by the Agency are classified as advances from others and deferred revenue until expended. Liabilities of the Agency, arising from other than contracts can be abrogated by the Government acting in its sovereign capacity.

L. 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. It is expensed as it is used. Annual leave earned but not taken at 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 "Federal Employee Benefits Payable."

M. Advances from Others and Deferred Revenue (see Note 11)

Fees collected by the FIFRA program that have not yet been expended are considered deferred revenue. Deferred revenue will fluctuate in conjunction with expenses paid from other appropriations and program expenses.

N. 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, 1987, the Federal Employees Retirement System (FERS) went into effect pursuant to Public Law 99-335. Most employees hired after December 31, 1986, are automatically covered by FERS and Social Security. Employees hired prior to January 1, 1987, elected to either join FERS and Social Security or remain in CSRS. A primary feature of

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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.

O. Non-exchange Revenue

Non-exchange revenue is entirely comprised of interest earned on Treasury Securities.

P. 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.

Q. Use of Estimates

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

R. Reclassifications and Comparative Figures

Certain reclassifications have been made to the prior year's financial statements to enhance comparability with the current year's financial statements in accordance with Office of Management and Budget (OMB) Circular No. A-136, *Financial Reporting Requirements* revised June 3, 2022. As a result, the form and content of the Balance Sheet, Statement of Changes in Net Position and footnotes has changed to conform with OMB Circular No. A-136.

U.S. Environmental Protection Agency
FIFRA
Notes to the Financial Statements
For the Fiscal Years Ended September 30, 2022 and 2021
(Dollars in Thousands)

Note 2. Fund Balance With Treasury (FBWT)

Fund Balance with Treasury as of September 30, 2022 and 2021 consists of the following:

	2022			2021		
	Entity Assets	Non-Entity Assets	Total	Entity Assets	Non-Entity Assets	Total
Revolving Funds:						
FIFRA	\$ 31,338	\$ -	\$ 31,338	\$ 38,362	\$ -	\$ 38,362
Total	\$ 31,338	\$ -	\$ 31,338	\$ 38,362	\$ -	\$ 38,362

Status of Fund Balances:

Unobligated Amounts in Fund Balance:

	2022	2021
Available for Obligation	\$ 17,068	\$ 26,165
Obligated Balance not yet Disbursed	11,905	10,364
Unavailable for Obligation	2,365	1,833
Total	\$ 31,338	\$ 38,362

Note 3. Accounts Receivable, Net

Accounts Receivable as of September 30, 2022 and 2021, consist of the following:

	2022	2021
Non-Federal:		
Accounts & Interest Receivable	\$ 1	\$ -
Total	\$ 1	\$ -

The Allowance for Uncollectible Accounts is determined both on a specific identification basis, as a result of a case-by-case review of receivables, and on a percentage basis for receivables not specifically identified.

Note 4. Accounts Payable

The Accounts Payable are current liabilities and consist of the following amounts as of September 30, 2022 and 2021:

	2022	2021
Other Than Intragovernmental:		
Accounts Payable	\$ 120	\$ 30
Total	\$ 120	\$ 30

U.S. Environmental Protection Agency
FIFRA
Notes to the Financial Statements
For the Fiscal Years Ended September 30, 2022 and 2021
(Dollars in Thousands)

Note 5. General Property, Plant and Equipment, Net (Restated)

General property, plant, and equipment (PP&E) consist of software, real property, EPA-held and contractor-held personal property, and capital leases.

As of September 30, 2022, General PP&E Cost consisted of the following:

	EPA- Held Equipment	Software (production)	Software (development)	Total
Balance, Beginning of Year	\$ 768	\$ 330	\$ 9,043	\$ 10,141
Additions	-	-	2,765	2,765
Balance, End of Year	\$ 768	\$ 330	\$ 11,808	\$ 12,906

As of September 30, 2022, General PP&E Accumulated Depreciation consisted of the following:

	EPA- Held Equipment	Software (production)	Software (development)	Total
Balance, Beginning of Year	\$ 282	\$ 330	\$ -	\$ 612
Depreciation Expense	79	-	-	79
Balance, End of Year	\$ 361	\$ 330	\$ -	\$ 691

As of September 30, 2022, General PP&E, Net consisted of the following:

	EPA- Held Equipment	Software Production	Software (development)	Total
Balance, End of Year, Net	\$ 407	\$ -	\$ 11,808	\$ 12,215

As of September 30, 2021, General PP&E Cost (Restated) consisted of the following:

	EPA- Held Equipment	Software (production)	(Restated) Software (development)	Total
Balance, Beginning of Year	\$ 600	\$ 330	\$ 4,536	\$ 5,466
Additions	168	-	4,507	4,675
Balance, End of Year	\$ 768	\$ 330	\$ 9,043	\$ 10,141

U.S. Environmental Protection Agency
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Notes to the Financial Statements
For the Fiscal Years Ended September 30, 2022 and 2021
(Dollars in Thousands)

As of September 30, 2021, General PP&E Accumulated Depreciation consisted of the following:

	EPA- Held Equipment	Software (production)	Software (development)	Total
Balance, Beginning of Year	\$ 159	\$ 323	\$ -	\$ 482
Depreciation Expense	123	7	-	130
Balance, End of Year	\$ 282	\$ 330	\$ -	\$ 612

As of September 30, 2021, General PP&E, Net (Restated) consisted of the following:

	EPA- Held Equipment	Software (production)	(Restated) Software (production)	Total
Balance, End of Year, Net	\$ 486	\$ -	\$ 9,043	\$ 9,529

Note 6. Other Liabilities

At various periods throughout FY 2022 and FY 2021 employees with their associated payroll costs were transferred from FIFRA to the Environmental Programs and Management (EPM) appropriation. These employees were transferred to keep FIFRA's obligations and disbursements within budgetary limits. When resources become available, the employees charging to FIFRA increased to utilize resources as much as possible.

This process has led to variations between the year-end liabilities of FYs 2022 and 2021. The liabilities covered by budgetary resources (both Intragovernmental and non-Federal) represent unpaid payroll and benefits at year-end.

Other Liabilities consist of the following as of September 30, 2022:

	Covered by Budgetary Resources	Not Covered by Budgetary Resources	Total
Current			
Employer Contributions & Payroll Taxes	\$ 237	\$ -	\$ 237
Other Accrued Liabilities	2,459	-	2,459
Total Intragovernmental	\$ 2,696	\$ -	\$ 2,696
Other Liabilities - Other Than Intragovernmental			
Current			
Other Accrued Liabilities	\$ 739	\$ -	\$ 739
Accrued Funded Payroll and Benefits	975	-	975
Total Other Than Intragovernmental	\$ 1,714	\$ -	\$ 1,714

U.S. Environmental Protection Agency
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Notes to the Financial Statements
For the Fiscal Years Ended September 30, 2022 and 2021
(Dollars in Thousands)

Other Liabilities consist of the following as of September 30, 2021:

	Covered by Budgetary Resources	Not Covered by Budgetary Resources	Total
Current			
Employer Contributions & Payroll Taxes	\$ 176	\$ -	\$ 176
Other Accrued Liabilities	540	-	540
Total Intragovernmental	\$ 716	\$ -	\$ 716
Other Liabilities - Other Than Intragovernmental			
Current			
Other Accrued Liabilities	\$ 1,066	\$ -	\$ 1,066
Accrued Funded Payroll and Benefits	734	-	734
Total Other Than Intragovernmental	\$ 1,800	\$ -	\$ 1,800

Note 7. Recoveries and Resources Not Available, Statement of Budgetary Resources

Recoveries of Prior Year Obligations, Temporarily Not Available, and Permanently Not Available on the Statement of Budgetary Resources consist of the following amounts as of September 30, 2022 and 2021:

	2022	2021
Unobligated Balance Brought Forward, Oct 1.	\$ 26,165	\$ 42,223
Adjustments to Budgetary Resources Made During the Current Year		
Downward Adjustments of Prior Year Undelivered Orders	625	1,599
Other Adjustments	87	136
Total	712	1,735
Unobligated Balance from Prior Year Budget Authority, Net (mandatory)	\$ 26,877	\$ 43,958
Temporary Reduction-New Budget Authority	\$ (1,842)	\$ (1,833)

U.S. Environmental Protection Agency
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Notes to the Financial Statements
For the Fiscal Years Ended September 30, 2022 and 2021
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Note 8. Unobligated Balances Available

Unexpired unobligated balances are available to be apportioned by the OMB for new obligations at the beginning of the following fiscal year. The expired unobligated balances are only available for upward adjustments of existing obligations.

The unobligated balances available consist of the following as of September 30, 2022 and 2021:

	2022	2021
Unexpired Unobligated Balance	\$ 17,591	\$ 26,165
Total	\$ 17,591	\$ 26,165

Note 9. Undelivered Orders at the End of the Period

Budgetary resources obligated for undelivered orders as of September 30, 2022 and 2021:

	2022	2021
Intragovernmental:		
Unpaid Undelivered Orders	\$ 613	\$ 129
Paid Undelivered Orders	414	185
Other Than Intragovernmental:		
Unpaid Undelivered Orders	7,843	7,602
Total	\$ 8,870	\$ 7,916

Note 10. Federal Employee Benefits Payable

Payroll and benefits payable to the EPA employees for the years September 30, 2022 and 2021 consist of the following:

	Covered by Budgetary Resources	Not Covered by Budgetary Resources	Total
FY 2022 Federal Employee Benefits Payable			
Employer Contributions Payable - Thrift Savings Plan	\$ 119	\$ -	\$ 119
Total - Current	119	-	119
Accrued Unfunded Annual Leave	-	3,459	3,459
Total - Non-Current	-	3,459	3,459
Total	\$ 119	\$ 3,459	\$ 3,578

U.S. Environmental Protection Agency
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For the Fiscal Years Ended September 30, 2022 and 2021
(Dollars in Thousands)

	Covered by Budgetary Resources	Not Covered by Budgetary Resources	Total
FY 2021 Federal Employee Benefits Payable			
Employer Contributions Payable - Thrift Savings Plan	\$ 89	\$ -	\$ 89
Total - Current	89	-	89
Accrued Unfunded Annual Leave	-	3,937	3,937
Total - Non-Current	-	3,937	3,937
Total	\$ 89	\$ 3,937	\$ 4,026

Note 11. Income and Expenses from Other Appropriations (Restated)

The Statement of Net Cost reports the program costs that include the full cost 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 2022 and 2021, 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.

As illustrated below there is no impact on EPA's Statement of Changes in Net Position.

	2022	Restated 2021
Income from Other Appropriations	\$ 31,520	\$ 40,226
Expenses from Other Appropriations	31,520	40,226
Net Effect	\$ -	\$ -

Note 12. Exchange Revenues, Statement of Net Cost

For FYs 2022 and 2021, the exchange revenues reported on the Statement of Net Cost is comprised of non-Federal amounts.

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Note 13. Intragovernmental Costs and Exchange Revenue (Restated)

	2022	(Restated)	2021
Costs:			
Intragovernmental	\$ 13,497	\$	14,820
Other Than Intragovernmental (Restated)	25,922		28,948
Expenses from Other Appropriations (Restated)	31,520		40,226
Total Costs	\$ 70,939	\$	83,994
 Revenue:			
Other Than Intragovernmental	41,140		46,684
Total Revenue	41,140		46,684
 Net Cost of Operations:	 \$ 29,799	 \$	 37,310

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

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Note 14. Reconciliation of Net Cost of Operations to Budget (Restated)

For the Fiscal Year 2022:

	Intra- governmental	Other Than Intra- governmental	Total 2022
NET COST	\$ 13,497	\$ 16,302	\$ 29,799
Components of Net Cost That Are Not Part of Net Outlays:			
Property, Plant and Equipment Depreciation	-	(79)	(79)
Applied Overhead/Cost Capitalization Offset	-	2,765	2,765
Expenses from Other Appropriations	-	(31,520)	(31,520)
Increase/(Decrease) in Assets:			
Accounts Receivable	-	1	1
Other Assets	229	-	229
(Increase)/Decrease in Liabilities:			
Accounts Payable	(1,980)	(90)	(2,070)
Federal Employee Benefits Payable	-	447	447
Other Liabilities	-	8,994	8,994
Other Financing Sources:			
Other Imputed Financing	(1,444)	-	(1,444)
Total Components of Net Cost That Are Not Part of Net Outlays	(3,195)	(19,482)	(22,677)
Miscellaneous Items			
Custodial/Non-exchange revenue	(98)	-	(98)
Total Miscellaneous Items	(98)	-	(98)
Other Temporary Timing Differences	-	98	98
NET OUTLAYS	\$ 10,204	\$ (3,082)	\$ 7,122

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For the Fiscal Year 2021 (Restated):

	Intra- governmental	(Restated) Other Than Intra- governmental	Total 2021
NET COST (Restated)	\$ 14,820	\$ 22,490	\$ 37,310
Components of Net Cost That Are Not Part of Net Outlays:			
Property, Plant and Equipment Depreciation	-	(130)	(130)
Applied Overhead/Cost Capitalization Offset (Restated)	-	4,676	4,676
Other (Restated)	-	(40,227)	(40,227)
Increase/(Decrease) in Assets:			
Other Assets	134	-	134
(Increase)/Decrease in Liabilities:			
Accounts Payable	(258)	(196)	(454)
Federal Employee Benefits Payable	-	405	405
Other Liabilities	14,529	177	14,706
Other Financing Sources:			
Other Imputed Financing	(2,195)	-	(2,195)
Total Components of Net Cost That Are Not Part of Net Outlays	27,030	(12,805)	14,225
Miscellaneous Items			
Custodial/Non-exchange revenue	(13)	-	(13)
Total Miscellaneous Items	(13)	-	(13)
Other Temporary Timing Differences	-	13	13
NET OUTLAYS	\$ 27,017	\$ (12,792)	\$ 14,225

Budgetary and financial accounting information differ. Budgetary accounting is used for planning and control purposes and relates to both the receipt and use of cash, as well as reporting the federal deficit. Financial accounting is intended to provide a picture of the government's financial operations and financial position, so it presents information on an accrual basis. The accrual basis includes information about costs arising from the consumption of assets and the incurrence of liabilities. The reconciliation of net outlays, presented on a budgetary basis, and the net cost, presented on an accrual basis, provides an explanation of the relationship between budgetary and financial accounting information.

The reconciliation serves not only to identify costs paid for in the past and those that will be paid in the future, but also to assure integrity between budgetary and financial accounting. The reconciliation explains the relationship between the net cost of operations and net outlays by presenting components of net cost that are not part of net outlays (e.g., depreciation and amortization expenses of assets previously capitalized, change in asset/liabilities), components of net outlays that are not part of net cost (e.g., acquisition of capital

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assets), other temporary timing difference (e.g., prior period adjustments due to correction of errors). The analysis above illustrates this reconciliation by listing the key differences between net cost and net outlays.

Note 15. Restatements

Software In Development

During FY 2022, EPA capitalized software in development costs of \$4,290 that were expensed in FY 2021 and \$4,536 that were expensed in FY 2020 and prior. These expenses should have been capitalized in those respective years. The agency is restating the capitalization of software in development costs into the periods in which they occurred.

As a result, income and expenses from other appropriations were overstated by \$1,125, the amount of costs included in the income and expenses from other appropriations in FY 2021 that were impacted by the capitalization of software in development restatement.

The changes impact FY 2021 Balance Sheet, Statement of Net Cost and Statements of Changes in Net Position.

For the Year Ended September 30, 2021	Previously Reported	Restatement	Restated Amount
Balance Sheet:			
General Property Plant and Equipment, Net	\$ 704	8,825	\$ 9,529
Cumulative Results of Operation - Fund from Dedicated Collections	\$ (3,683)	8,825	\$ 5,142
Statement of Net Cost:			
Gross Costs	\$ 48,057	(4,289)	\$ 43,768
Expenses from Other Appropriations	\$ 41,351	(1,125)	\$ 40,226
Net Cost of Operations	\$ 42,724	(5,414)	\$ 37,310
Cumulative Results of Operations:			
Net Position - Beginning Balance	\$ (4,519)	4,536	\$ 17
Income from Other Appropriations	\$ 41,351	(1,125)	\$ 40,226
Total Net Position	\$ (3,683)	8,825	\$ 5,142

Agency Response to Draft Report



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

September 22, 2023

OFFICE OF THE
CHIEF FINANCIAL OFFICER

MEMORANDUM

SUBJECT: Response to the Office of Inspector General Draft Report, Project No. OA-FY23-0048, *“Audit of the EPA’s Fiscal Years 2022 and 2021 (Restated) Pesticides Reregistration and Expedited Processing Fund Financial Statements,”* dated September 12, 2023

FROM: Faisal Amin, Chief Financial Officer
Office of the Chief Financial Officer

Amin, Faisal Digitally signed by Amin, Faisal
Date: 2023.09.22 17:14:16 -04'00'

TO: Damon Jackson, Director
Financial Directorate
Office of Audit

Thank you for the opportunity to respond to the issues and recommendations in the subject draft report. The following is a summary of the U.S. Environmental Protection Agency’s overall position, along with its position on the report’s recommendations. This response has been coordinated with the Office of Chemical Safety and Pollution Prevention.

AGENCY’S OVERALL POSITION

The draft report contains two recommendations for the Office of the Chief Financial Officer. The agency agrees with both recommendations.

AGENCY RESPONSE TO DRAFT REPORT RECOMMENDATIONS

Recommendation	Office	High-Level Intended Corrective Action(s)	Estimated Completion Date
1. Record an adjustment to recognize the rent and protective services expenses for the FY 2022 FIFRA Fund financial statements.	OCFO	<u>Concur.</u> The adjustment for the rent and protective services was recorded and included in the final FY 2022 Federal Insecticide, Fungicide, and Rodenticide Act Fund financial statements.	Completed 8/24/2023

2. Correct the restatement amount for the Software in Development to accurately capture the amounts for note 15, “Restatements.”	OCFO	<u>Concur.</u> The restatement amount was corrected in the final statements to accurately capture the amounts for Note 15.	Completed 8/24/2023
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CONTACT INFORMATION

If you have any questions regarding this response, please contact the OCFO’s Audit Follow-up Coordinator, Andrew LeBlanc, at leblanc.andrew@epa.gov or (202) 564-1761, or the OCSPP’s Senior Audit Advisor, Janet Weiner, at Weiner.Janet@epa.gov or (202) 564-2309.

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Whistleblower Protection

U.S. Environmental Protection Agency

The whistleblower protection coordinator's role is to educate Agency employees about prohibitions against retaliation for protected disclosures and the rights and remedies against retaliation. For more information, please visit the OIG's whistleblower protection [webpage](#).

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