AGENCY FINANCIAL REPORT

Fiscal Year 2018

U.S. CONSUMER PRODUCT SAFETY COMMISSION

CPSC Stands for Safety

November 8, 2018

ABOUT THE CPSC

The U.S. Consumer Product Safety Commission (CPSC) is an independent federal regulatory agency, created in 1972 by the Consumer Product Safety Act (CPSA Act). In addition to the CPSA, as amended by the Consumer Product Safety Improvement Act of 2008 (CPSIA Act), and by Pub. L. No. 112-28, the CPSC also administers other laws, such as the Federal Hazardous Substances Act (FHSA Act), the Flammable Fabrics Act (FFA Act), the Poison Prevention Packaging Act (PPPA Act), the Refrigerator Safety Act (RSA Act), the Virginia Graeme Baker Pool and Spa Safety Act (VGB Act), the Children's Gasoline Burn Prevention Act (CGBPA Act), the Labeling of Hazardous Art Materials Act (LHAMA Act), the Drywall Safety Act (DSA Act), and the Child Nicotine Poisoning Prevention Act (CNPP Act).

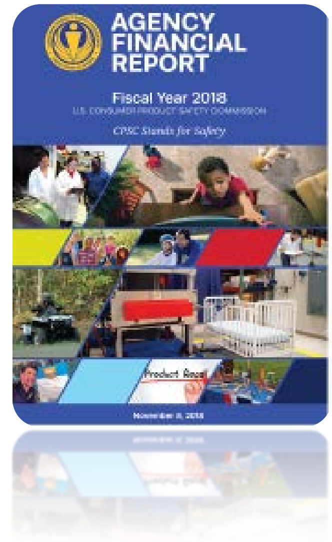
The CPSC has jurisdiction over thousands of types of consumer products used in and around the home. Although the CPSC's regulatory purview is quite broad, a number of product categories fall outside the CPSC's jurisdiction.*

The CPSC is a bipartisan commission consisting of five Commissioners appointed by the President with the advice and consent of the Senate. The Commission convenes at meetings typically open to the public.

From left to right: Commissioner Peter Feldman, Commissioner Dana Baiocco, Acting Chairman Ann Marie Buerkle, Commissioner Robert Adler, and Commissioner Elliot Kaye.

* Product categories, such as automobiles and boats; alcohol, tobacco, and firearms; foods, drugs, cosmetics, and medical devices; and pesticides, are regulated by other federal agencies.

ABOUT THIS REPORT



The purpose of the U.S. Consumer Product Safety Commission's Fiscal Year (FY) 2018 *Agency Financial Report* (AFR) is to assist Congress, the President, and the American people in assessing the agency's stewardship of the resources it is provided. This annual report is required by legislation and complies with the requirements of the Office of Management and Budget (OMB) Circulars No. A-11, *Preparation, Submission, and Execution of the Budget*, and A-136, *Financial Reporting Requirements*.

This AFR is organized into four major sections:

Management's Discussion and Analysis—This section includes information about the agency's mission and organizational structure, its high-level performance results, financial highlights, assurance of compliance with laws and regulations, and management assurances.

Financial Section—This section provides a message from the Chief Financial Officer, the independent auditor's report, the financial statements and accompanying notes, and required supplementary information.

Other Information—This section provides the Office of Inspector General's (OIG) Management and Performance Challenges, a summary of the financial statement audit and management assurance, improper payments reporting details, Fraud Reduction and Data Analytics Act, Reduce the Footprint and Grant Oversight & New Efficiency (GONE) Act requirements.

Appendices—This section provides the performance measurement reporting process, the listing of federal statutes applicable to the CPSC, and the glossary of acronyms and abbreviations.

This report satisfies the reporting requirements contained in the following legislation:

- *Federal Managers' Financial Integrity Act of 1982*
- *Accountability of Tax Dollars Act of 2002*
- *Government Management Reform Act of 1994*
- *Federal Financial Management Improvement Act of 1996*
- *Reports Consolidation Act of 2000*
- *Improper Payments Elimination and Recovery Act of 2010 (as amended by the Improper Elimination and Recovery Improvement Act of 2012)*
- *Government Performance and Results Act (GPRA) Modernization Act of 2010.*

In accordance with OMB Circular No. A-11, Part 6, Section 240.2, the CPSC is producing an AFR, with a primary focus on financial results and an Annual Performance Report (APR),[*] which focuses on strategic goals and performance results that is published the following February. Electronic copies will be available at this website shortly after publication of each report: https://www.cpsc.gov/About-CPSC/Agency-Reports/Performance-and-Budget/.

[*] The CPSC's FY 2018 APR is scheduled to be published concurrently with the CPSC's FY 2020 President's Budget Request in February 2019. The FY 2018 APR will provide more detailed performance information and analysis of performance results.

CERTIFICATE OF EXCELLENCE IN ACCOUNTABILITY REPORTING

For the third consecutive year, the Association of Government Accountants (AGA) recognized the CPSC with the prestigious Certificate of Excellence in Accountability Reporting (CEAR) award, which commends high-quality reporting for accountability and transparency. The AGA presents this award to agencies after conducting a rigorous, independent review against established standards for presentation. The AGA presents the award to applying federal government agencies whose annual financial reports demonstrate the highest standards of accountability and transparency in communicating results.

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MESSAGE FROM THE ACTING CHAIRMAN

I am pleased to present the U.S. Consumer Product Safety Commission's (CPSC) FY 2018 Agency Financial Report (AFR). This report provides information on our financial performance as well as insight into our use of the taxpayer dollars and the resources entrusted to the CPSC. It also summarizes our progress toward achieving the agency's mission of *Keeping Consumers Safe* and the four strategic goals described in our 2018–2022 Strategic Plan, which was revised and approved by the Commission this year.

I am pleased to report that we received an unmodified opinion on our FY 2018 financial statements. The opinion of the independent auditor can be found in this report, as can the message from our Chief Financial Officer that describes our significant financial management accomplishments this past year. I can also report that the financial and performance data presented herein are reasonably complete, accurate, and reliable.

Our strategic plan outlines four major goals for the agency. The first strategic goal is to cultivate the most effective workforce. Having a highly trained, diverse, and engaged workforce is critical to meeting the dynamic challenges of consumer product safety. The CPSC is a relatively small agency, comprised of a workforce of just more than 500 employees. The agency strives to foster a culture of continuous development by providing its employees with professional opportunities, enabling them to keep their skills current to deliver on the agency's broad mission. To cultivate a learning culture, the CPSC provided all of its employees with training to help them identify, plan, and accomplish professional development goals that advance the CPSC's mission. The CPSC is also focused on creating a culture of results, training all employees on effective personnel performance management.

The second strategic goal is to prevent hazardous products from reaching consumers. This is an extremely challenging goal, considering that the annual U.S. consumption of consumer products under CPSC's jurisdiction averages around $1.6 trillion, or 9 percent of the U.S. Gross Domestic Product. Given the scope of products within our jurisdiction, the agency focuses its attention on the highest priority consumer product safety risks, using high quality data, science, and analysis. As part of that effort to prevent hazardous products from reaching consumers, the CPSC screened more than 41,000 imported consumer products at U.S. ports of entry and cleared 99.8 percent of imported shipments within one business day. The CPSC also worked with stakeholders on a national and international level to improve consumer product safety knowledge both in the United States and around the world.

It is not always possible to stop dangerous products at the ports. Accordingly, the third strategic goal is to respond quickly to address hazardous consumer products both in the marketplace and with consumers. The agency learns about potential consumer product hazards from many sources, such as emergency room incident reports or phone calls to CPSC's Hotline. Consequently, sometimes a recall is necessary to keep consumers safe. This past year, the CPSC conducted 264 recalls involving approximately 57 million units; all 264 were voluntary recalls. The CPSC also worked with a wide range of stakeholders to improve the agency's recall response by consumers, including hosting a meeting with other federal agencies that conduct recalls to share recall best practices and explore strategies to improve consumer response to recalls.

The final strategic goal is to communicate useful information quickly and effectively to better inform decisions. Consumers, safety advocates, industry, and government agencies need high-quality information to make informed decisions for themselves, their businesses, and their families. The CPSC uses a variety of platforms to communicate with the public, including CPSC websites like SaferProducts.gov, social media, email alerts, and online videos. This past year, there were 831,000 engagements by consumers with the agency's social media messages on Twitter, Facebook, and Instagram, an increase of nearly 200 percent from last year. To enhance the online user experience, the agency updated its "Regulatory Robot," an interactive resource to help small businesses identify important product safety requirements. The updates enable the Regulatory Robot to run on smartphones and tablets and add multi-lingual capacity for certain product categories in Chinese, Spanish, Vietnamese, and Bahasa Indonesian.

The CPSC has an important mission of *Keeping Consumers Safe* from unreasonable risk of injury or death associated with consumer products. We are honored to serve the American people, and we strive to be an agency that people can trust. Thank you for taking the time to review our results.

Ann Marie Buerkle
Acting Chairman
November 8, 2018

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MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

This section of the AFR provides information about the agency's mission and organizational structure, its high-level performance results, financial highlights, compliance with laws and regulations, and management assurances.

CPSC's Mission, Programs, and Organizational Structure

The CPSC's mission of "Keeping Consumers Safe" is grounded in the statutes that authorize the work of the agency. The agency's overarching vision is: "A nation free from unreasonable risks of injury and death from consumer products." The CPSC has four strategic goals that contribute to realizing the vision and achieving the mission (see Figure 1). The strategic goals set the framework for agency planning, communication, management, and reporting, and provide direction for resource allocation, program design, and management decisions. Strategic objectives reflecting the key component outcomes necessary to achieve each of the strategic goals have been identified. Strategic objectives are supported by performance goals and strategic initiatives that are achieved through CPSC-supported programs and activities. Key performance measures are identified to monitor and report on progress toward the strategic objectives.

Figure 1: CPSC's Strategic Goals

The Commission consists of five members. The Chairman is the principal executive officer of the Commission. The chart below depicts the organizational structure of the CPSC in FY 2018:

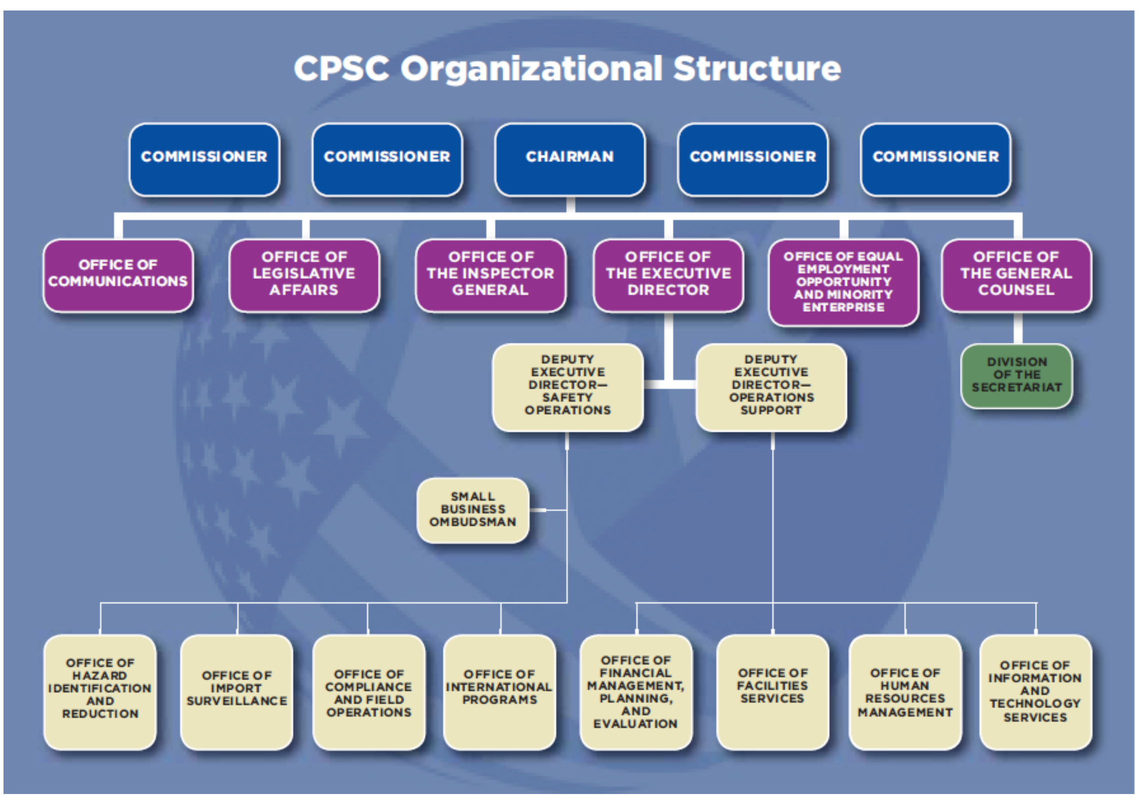


Figure 2: CPSC's Organizational Structure

Performance Summary: An Overview

FY 2018 Resources: The CPSC's enacted appropriation for FY 2018 was $126 million comprised of $124.9 million in 1-year funds for mission-related salaries and expenses and $1.1 million for the VGB Act Grant program (available until expended). Of the resources available for mission-related salaries and expenses, the CPSC obligated $124.8 million: $5.4 million (4%) for Goal 1 (Workforce); $79.3 million (64%) for Goal 2 (Prevention); $29.8 million (24%) for Goal 3 (Response); and $10.3 million (8%) for Goal 4 (Communication) [see p. 17 for FY 2018 Net Cost of Operations].

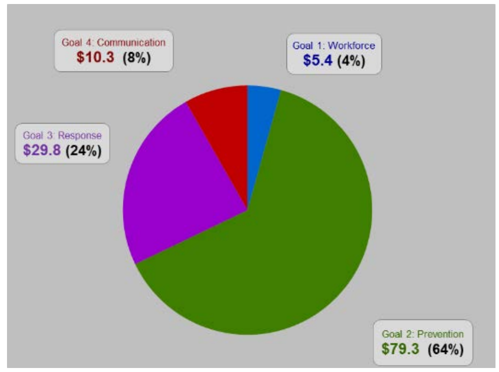
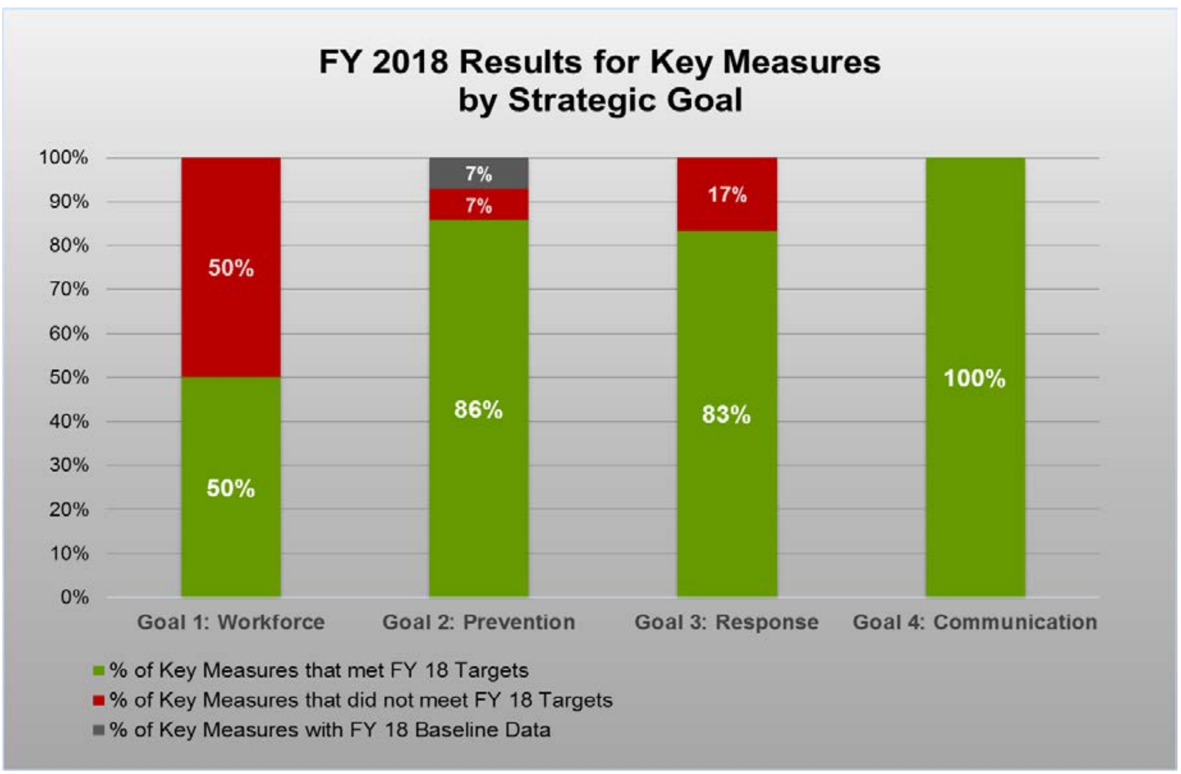


Figure 3 (above): CPSC's FY 2018 Obligations by Strategic Goal

Summary of FY 2018 Results: In FY 2018, the CPSC monitored 29 key performance measures (KMs). Of those 29 performance measures, 28 had established performance targets for FY 2018. The CPSC met the performance targets for 23 of the 28 performance measures (82 percent) with targets, and did not meet FY 2018 performance targets for five measures. One of the 29 measures, KM 2.2.07,[1] did not have a FY 2018 performance target because the measure was new. The percentages of key measures that met FY 2018 performance targets are shown in Figure 4.

Figure 4 (below): Summary of FY 2018 Results for Key Performance Measures by Strategic Goal



1 The CPSC collected baseline data for KM 2.2.07 during FY 2018, and the data will be used to set performance target levels for future years. See the Key Performance Measures table (p. 5) for more details on KM2.2.07.

Key Performance Measures (KMs)

The table below presents the CPSC's FY 2018 key performance measure results. The CPSC requires accurate data to assess agency progress toward its strategic and performance goals and to make informed management decisions. Program managers are responsible for assessing the completeness, consistency, timeliness, and quality of data for their performance measures, as well as identifying any data limitations. Managers of major organizational units certify that procedures for ensuring performance data quality have been followed, and that reported results are reasonably complete, accurate, and reliable. A verification and validation review of year-end performance results for key measures is also conducted. Details on the CPSC's performance measurement reporting and verification and validation processes are provided in Appendix A (p. 74) of this report.

Program	Performance Measure Statement	FY 2015 Actual	FY 2016 Actual	FY 2017 Actual	FY 2018 Actual	FY 2018 Target	FY 2018 Target Met?
Strategic Goal 1: Workforce	*Cultivate the Most Effective Consumer Product Safety Workforce*						
Strategic Objective 1.1: Enhance effective strategic human capital planning and alignment							
Personnel	**KM1.1.02** Percentage of full-time equivalents (FTEs) utilized	--	--	--	97%	95%	✓
Strategic Objective 1.2: Foster a culture of continuous development							
Personnel	**KM1.2.01** Percentage of employees satisfied with opportunities to improve their skills (as reported in the Federal Employee Viewpoint Survey)	--	--	72.5%	68.1%	73%	✗
Strategic Objective 1.3: Attract and recruit a talented and diverse workforce							
Personnel	**KM1.3.01** Percentage of hiring managers trained on recruitment	--	--	56.1%	82.6%	75%	✓
Strategic Objective 1.4: Increase employee engagement							
Personnel	**KM1.4.01** Federal Employee Viewpoint Survey Employee Engagement Index Score	66%	70%	73%	69%	74%	✗
Strategic Goal 2: Prevention	*Prevent Hazardous Products from Reaching Consumers*						
Strategic Objective 2.1: Improve identification and assessment of hazards to consumers							
Hazard	**KM2.1.01** Percentage of consumer product-related incident reports warranting follow-up actions	--	--	25%	26%	25%	✓
Hazard	**KM2.1.02** Number of hazard characterization annual reports completed on consumer product-related fatalities, injuries, and/or losses for specific hazards	10	11	11	10	11	✗
Hazard	**KM2.1.03** Percentage of consumer product-related injury cases correctly captured at NEISS hospitals	91.6%	91%	92.4%	93%	90%	✓
Hazard	**KM2.1.04** Number of collaborations established or maintained with other organizations to work on nanotechnology research or issues affecting consumer products	--	--	7	9	3	✓
Strategic Objective 2.2: Lead efforts to improve the safety of consumer products before they reach the marketplace							
Hazard	**KM2.2.01** Number of voluntary standards activities in which CPSC staff actively participates	81	71	76	77	77	✓
Hazard	**KM2.2.02** Number of candidates for rulemaking prepared for Commission consideration	20	10	18	19	16	✓
International	**KM2.2.04** Percentage of foreign-based industry representatives indicating increased understanding after CPSC training	--	--	95%	98.6%	90%	✓
International	**KM2.2.05** Percentage of foreign regulatory agency representatives indicating increased understanding of CPSC procedures after CPSC training	--	--	99.6%	98.6%	90%	✓

Program	Performance Measure Statement	FY 2015 Actual	FY 2016 Actual	FY 2017 Actual	FY 2018 Actual	FY 2018 Target	FY 2018 Target Met?
Strategic Goal 2: Prevention (continued) *Prevent Hazardous Products from Reaching Consumers*							
International	**KM2.2.06** Percentage of inbound exchange fellows indicating increased understanding of CPSC best practices after CPSC training	--	--	100%	100%	100%	✓
Import	**KM2.2.07** Percentage of firms that are engaged with timely establishment inspection after being identified as a repeat offender	--	--	--	73%	Baseline*	N/A
Strategic Objective 2.3: Increase capability to identify and stop imported hazardous consumer products							
Import	**KM2.3.01** Percentage of consumer product imports, identified as high-risk, examined at import	--	--	88.5%	89%	85%	✓
Import	**KM2.3.02** Percentage of import shipments processed through the Risk Assessment Methodology (RAM) pilot system that are cleared within 1 business day	99.6%	99.8%	99.8%	99.8%	99%	✓
Import	**KM2.3.03** Percentage of consumer product import entries that are risk-scored by the CPSC	--	--	4.2%	3.0%	4%	✘
Import	**KM2.3.04** Number of import examinations completed	35,122	36,523	38,726	41,117	35,000	✓
Strategic Goal 3: Response *Respond Quickly to Address Hazardous Consumer Products Both in the Marketplace and with Consumers*							
Strategic Objective 3.1: Rapidly identify hazardous consumer products for enforcement action							
Compliance	**KM3.1.01** Percentage of cases for which a preliminary determination is made within 85 business days of the case opening	--	--	74%	75%	70%	✓
Compliance	**KM3.1.02** Percentage of cases for which a compliance determination of a regulatory violation is made within 35 business days of sample collection	--	--	87%	88.8%	85%	✓
Strategic Objective 3.2: Minimize further exposure to hazardous consumer products							
Compliance	**KM3.2.02** Percentage of cases for which a firm is first notified of a regulatory violation within 40 business days from sample collection	--	--	86%	87.2%	85%	✓
Compliance	**KM3.2.03** Percentage of Fast-Track cases with corrective actions initiated within 20 business days	97.3%	99.1%	98%	95.9%	90%	✓
Compliance	**KM3.2.04** Percentage of cases for which a corrective action is accepted within 90 business days of preliminary determination	--	--	--	92.7%	60%	✓
Strategic Objective 3.3: Improve consumer response to consumer product recalls							
Compliance	**KM3.3.01** Recall effectiveness rate for all consumer products	--	--	41%	17.4%	25%	✘
Strategic Goal 4: Communication *Communicate Useful Information Quickly and Effectively to Better Inform Decisions*							
Strategic Objective 4.1: Improve usefulness and availability of consumer product safety information							
Communications	**KM4.1.01** Percentage of positive responses about usefulness of information received from CPSC communication channels	--	--	92.3%	92%	82%	✓
Communications	**KM4.1.02** Number of engagement with CPSC safety messaging on social media safety channels by stakeholders (in thousands)	--	--	285	831	300	✓
Strategic Objective 4.2: Increase dissemination of useful consumer product safety information							
Communications	**KM4.2.01** Number of impressions of CPSC safety messages (in millions)	--	--	6,314.8	7,597.8	4,430	✓
Communications	**KM4.2.02** Average number of business days between establishment of first draft and issuance of recall press release for the timeliest 90% of recall press releases	16	17.8	17.5	17.3	< 18.5	✓
Strategic Objective 4.3: Increase and enhance collaborations with stakeholders							
Communications	**KM4.3.01** Number of collaboration activities initiated with stakeholder groups	--	--	28	47	28	✓

* Baseline data for KM2.2.07 are being collected and will be used to establish performance targets for future fiscal years.

Selected Performance Results

The Commission approved an updated *2018–2022 Strategic Plan* this year. The Strategic Goals are unchanged from the prior plan. We describe the strategies for achieving each of the CPSC's strategic goals and selected FY 2018 achievements below:

Goal 1 – Workforce: *Cultivate the most effective consumer product safety workforce*

Having a highly trained, diverse, and engaged workforce is critical to meeting the dynamic challenges of the consumer product safety landscape and achieving the CPSC's life-saving mission. Agency staff's knowledge about product safety, commitment to the agency's mission, and "can-do" attitude make achieving the CPSC's mission possible.

Strategies for *Workforce:* The CPSC's approach to cultivating an effective workforce involves enhancing human capital planning and alignment, increasing opportunities for professional development, improving recruitment strategies to attract talented, diverse, and committed employees, and increasing employee engagement.

Selected FY 2018 achievements include:

- Trained more than 82 percent of hiring managers on the recruitment process to attract and recruit a talented, diverse, and highly effective workforce;
- All employees and supervisors were trained on effective performance management; and
- Achieved a 97 percent FTE utilization rate.

Goal 2 – Prevention: *Prevent hazardous products from reaching consumers*

The CPSC is charged with protecting the public from unreasonable risks of injury and death from a vast array of consumer products supplied through ever-expanding global markets. Working with stakeholders on voluntary standards and adopting mandatory standards for consumer products, combined with improved mechanisms to identify hazardous products before they enter the marketplace, are the most effective ways to prevent hazardous products from reaching consumers.

Strategies for *Prevention:* The CPSC's approach to addressing *Prevention* challenges involves taking action to prevent injury or harm from consumer products through: (1) working at the national and international level to help ensure that hazards are appropriately addressed by voluntary standards or mandatory regulations; (2) providing technical information to industry to support voluntary standards development; and (3) allocating effectively inspection, surveillance, and enforcement resources to identify hazardous products before they reach the marketplace.

Selected FY 2018 achievements include:

- Collaborated with manufacturers and other stakeholders to improve the safety of products with advanced technology, including Internet of Things (IoT), wearable, and high-energy battery-focused products. The Commission conducted an informative public hearing on IoT safety issues and hazards in May 2018. The CPSC also collaborated on safety information and standards with the Battery Safety Council, the Lithium Battery Interagency Coordination Group, CTIA (represents the U.S. wireless communications industry), industry groups, and voluntary standards developers. Staff published a report on high-energy battery-related work in February 2018;

- Actively participated in 77 voluntary standards activities, collaborating with industry leaders, consumer advocates, and other stakeholders to improve consensus voluntary standards across a wide range of consumer products;
- Conducted consumer product buyers' training for more than 100 industry-purchasing managers in Ho Chi Minh City, Vietnam, focusing on furniture, textiles/apparel, and toys. Vietnam ranks second as a source of U.S. imports for furniture and textiles/apparel and is expected to remain a leading manufacturing hub in Southeast Asia. Buyers' training is critical to ensuring that safety standards are understood by importers;
- Screened 41,117 different imported consumer products at U.S. ports of entry; and
- Exhibited, conducted training, and met with hundreds of toy industry visitors at the 2018 Hong Kong Toy and Games Fair. The Fair was the largest toy industry event in Asia and the second largest in the world, with 121 countries represented, 2,000 exhibitors, and more than 45,000 buyers. The CPSC's training session at the Fair was attended by more than 75 toy manufacturers and supplier and, focused on critical toy safety issues and new safety requirements.

Goal 3 – Response: *Respond quickly to address hazardous consumer products both in the marketplace and with consumers*

The CPSC learns about potential consumer product hazards from many sources, including incident reports, consumer notifications, the agency's Hotline (1-800-638-2772), www.SaferProducts.gov, and company reports. Additionally, field staff investigates reports of incidents and injuries; conducts inspections of manufacturers, importers, and retailers; and identifies potential regulatory violations and product hazards. When potential product defects are identified, the CPSC acts quickly to address the most hazardous consumer products that are in the marketplace or are being used by consumers.

STRATEGIC OBJECTIVE 3.1
Rapidly identify hazardous consumer products for enforcement action

STRATEGIC OBJECTIVE 3.2
Minimize further exposure to hazardous consumer products

STRATEGIC OBJECTIVE 3.3
Improve consumer response to consumer product recalls

Strategies for *Response:* Essential elements of the CPSC's strategies for improving *Response* include investigating incidents to determine a preliminary cause and hazard posed to consumers, collaborating with firms to conduct voluntary recalls or pursuing mandatory recalls if necessary, and working to improve the effectiveness of recalls in removing unsafe products from consumer use.

Selected FY 2018 achievements include:

- Sent 1,678 notices of noncompliance and negotiated 352 corrective action plans (CAPs) to address hazardous consumer products; Worked with firms to conduct 264 voluntary recalls, involving approximately 57 million units.;
- Held a meeting with other federal agencies – FDA, FSIS, NHTSA, and FTC—to consider strategies that may improve response to recalls across the federal government. Issued a Request for Information (RFI) on current methods and systems recalling firms use to assist in providing direct notice to consumers, as well as on the use of targeted notices to reach consumers who may have purchased a recalled product;
- Completed 1,021 establishment inspections of firms for compliance with the CPSC's laws and regulations;
- Contacted approximately 6,800 Internet firms and individuals who were offering for sale banned or previously recalled consumer products via Internet websites, preventing approximately 13,700 recalled or banned product units from being re-sold; and
- Selected five state and local governments to receive a total of approximately $1 million in *Pool Safely* Grant Program funds. The funding will provide grant recipients with assistance for enforcement, training, and education on pool safety requirements to save lives and prevent serious injuries associated with drownings and drain entrapments.

Goal 4 – Communication: *Communicate useful information quickly and effectively to better inform decisions*

Consumers, safety advocates, industry, and government regulators need high-quality information about consumer product safety. Consumers need safety information to make more informed decisions for themselves and their families. Safety advocates rely on accurate data to shape their policy recommendations. Industry needs information to help develop voluntary standards and comply with safety requirements. Foreign regulators and state and local government agencies also need high-quality information to advance consumer safety. These diverse audiences have different information needs, and they respond to different methods of communication.

STRATEGIC OBJECTIVE 4.1
Improve usefulness and availability of consumer product safety information

STRATEGIC OBJECTIVE 4.2
Increase dissemination of useful consumer product safety information

STRATEGIC OBJECTIVE 4.3
Increase and enhance collaboration with stakeholders

Strategies for *Communication:* The CPSC uses a wide array of communication channels and strategies to provide timely, targeted information about consumer product safety to the public, industry, and other stakeholders. Central elements of the CPSC's communications strategy include improving the usefulness and availability of safety messages by collecting and analyzing data and designing new and innovative communication tools, and strengthening collaborations with stakeholder groups, including other government agencies and nonprofit organizations, to improve communication.

Selected FY 2018 achievements include:

- Conducted collaborative training in Seattle, Washington near U.S. port locations on the CPSC's requirements for consumer product imports. Trainees included customs brokers, importers, manufacturers, and safety professionals. The CPSC training included hands-on demonstrations of how products are screened when they enter the United States, and attendees were able to speak directly with port investigators;
- Increased the number of engagements by consumers and others with CPSC's social media messages on CPSC's Twitter, Facebook, and Instagram accounts by approximately 200 percent from 285,000 in FY 2017 to 831,000 in FY 2018;
- Hosted a number of webinars, presented by the CPSC's Small Business Ombudsman, on various topics such as Strollers & Carriages, Children's Toy Overview, and Certificates of Conformity, among others;
- Updated the CPSC's "Regulatory Robot," an interactive resource to help small businesses identify important product safety requirements. The updates enable the Regulatory Robot to run on smartphones and tablets and add multi-lingual capacity for certain product categories in Chinese (simplified), Spanish, Vietnamese, and Bahasa Indonesian; and
- Collaborated with stakeholders to amplify CPSC's safety messaging. Olympic gold medalist Michael Phelps and the Michael Phelps Foundation collaborated with CPSC to hold a joint press event and a swimming lesson in Arizona to promote CPSC's *Pool Safely* drowning prevention campaign messages, including the importance of swim lessons for children. In addition, 17 new organizations/community safety leaders joined CPSC's *Pool Safely* campaign. CPSC's furniture and television tip-over prevention campaign Anchor It! added 15 new advocates who will work to promote this important safety campaign.

Crosscutting Priorities

The CPSC's strategic plan identifies four crosscutting strategic priorities, which are fundamental to achievement of its strategic goals:

- **Operational Excellence:** To achieve operational excellence, the CPSC aspires to develop a high-performing workforce, improve performance management and enhance financial stewardship.
- **Data Collection & Analysis:** The CPSC is a data-driven agency. Collection, management, and analysis of high-quality data are essential to achieving the CPSC's strategic goals and fulfilling the agency's mission. To achieve its Data Collection & Analysis crosscutting priority, the agency is exploring potential new sources of data on consumer product hazards that could inform agency work (*e.g.,* urgent care centers). Improving CPSC's ability to identify emerging risks, *e.g.*, IoT, (as compared to known hazards) is another area for data-related growth.
- **Information Technology (IT):** To achieve its IT crosscutting priority, the CPSC is considering options to improve the quality, transparency, reliability, and availability of data essential for achieving the agency's strategic goals and mission. The agency is also exploring the use of cloud computing to improve system availability, accelerate the delivery of new capabilities, and potentially realize cost efficiencies.
- **Internal & External Collaboration:** To achieve effective internal collaboration, the CPSC strives for transparent communication among all levels of the agency, including Commissioners' offices, and also better integration of processes, systems, and resources across various CPSC organizations. The CPSC will also continue its efforts to work effectively and collaboratively with many types of external organizations, including consumer advocacy organizations, manufacturers' associations and trade groups, voluntary standards organizations, federal agencies, state and local governments, and foreign governments.

Selected FY 2018 crosscutting priority achievements include:

- **IT Security:** In FY 2018, the CPSC developed a system-level, risk-management strategy and integrated the strategy with agency-wide risk-management processes. The CPSC also updated the security control catalog for its major systems, including security control tailoring and revisions of security control implementation statements.
- **Shared Services – Expansion & Cost Savings:** In FY 2018, the CPSC studied options for expanding administrative shared services to include acquisition systems, select acquisition support services, and integration of acquisition and financial management systems within a single shared services provider. The agency initiated a shared services agreement with the U.S. Department of Treasury's Administrative Resource Center (ARC) within the Bureau of the Fiscal Service and will transition off of the Department Of Transportation's Shared Services Platform in late FY 2019. The transition will enable significant improvements in operational efficiency and reporting, and will result in cost savings in subsequent years when fully implemented.

Performance: Risks, Underlying Factors, and Plans for Improvement

The CPSC had 29 key performance measures for FY 2018. Of the 28 key measures with FY 2018 performance targets, the agency met 23 (82 percent), and did not meet 5 (18 percent) of FY 2018 performance targets. A summary of the information on the key measures with missed targets is provided below with additional details on all of the key performance measures and results to be presented in the CPSC's FY 2018 APR. (Scheduled for publishing in February 2019, and will be available at: www.cpsc.gov/About-CPSC/Agency-Reports/Performance-and-Budget.)

- **Key Measure 1.2.01 Percentage of employees satisfied with opportunities to improve their skills (as reported in the Federal Employee Viewpoint Survey):** The target was 73 percent; the FY 2018 actual result was 68.1 percent. While the CPSC did not meet the target, the FY

2018 actual result was above the government-wide result of 66 percent. Further, according to other Federal Employee Viewpoint Survey (FEVS) data for the CPSC, 86.2 percent of employees agreed that their work unit has the job-relevant knowledge and skills necessary to accomplish organizational goals. This was a 5 percent increase from the previous year. The CPSC also made progress by developing and implementing an agency-wide training plan and Individual Development Plans (IDPs).

- **Key Measure 1.4.01 Federal Employee Viewpoint Survey Employee Engagement Index Score:** The target was 74 percent; the FY 2018 actual result was 69 percent. While the CPSC did not meet the target, the FY 2018 actual result was above the government-wide average of 68 percent and equal to the small agency Employee Engagement Index (EEI) score of 69 percent. The agency saw a significant increase in positive responses from its employees for "steps are taken to deal with a poor performer." The CPSC made progress in implementing important initiatives and activities to support improving employee engagement. Examples include conducting "Dealing with Poor Performers" training for supervisors and offering more than 30 wellness activities for employees. To improve performance management and engagement for future years, the agency will conduct an analysis of the FEVS data to determine areas of focus.
- **Key Measure 2.1.02 Number of hazard characterization annual reports completed on consumer product-related fatalities, injuries, and/or losses for specific hazards:** The target was 11 annual reports; the FY 2018 actual result was 10 annual reports. The CPSC did not meet the target. The carbon monoxide (CO) fatality report scheduled for completion in FY 2018 was delayed due to staffing shortages. The report is anticipated to be completed in the first quarter of FY 2019.
- **Key Measure 2.3.03 Percentage of consumer product import entries that are risk-scored by the CPSC:** The target was 4 percent; the FY 2018 actual result was 3 percent. The CPSC did not meet the FY 2018 target, which was informed by baseline data that were collected in FY 2017. However, those baseline data contained errors and the target was set with incomplete information. The agency is re-evaluating the data and will set new targets, accordingly.
- **Key Measure 3.3.01 Recall effectiveness rate for all consumer products:** The target was 25 percent; the FY 2018 actual result was 17.4 percent. The CPSC did not meet the target because of the volatility in the recall rates, which is highly dependent on the type of products and number of units being recalled. It is challenging to identify and reach affected consumers to inform them about recalls and, if consumers receive the recall message, have them act on the recall. However, the recall rate at just the consumer level increased about 1.4 percent from FY 2017.

The CPSC's progress toward FY 2018 performance results has been affected by certain risks and underlying factors that have posed challenges to program implementation and achievement of goals. The CPSC is developing a broader enterprise risk management (ERM) framework, in accordance with OMB Circular No. A-123. The ERM approach improves the agency's ability to manage risks and challenges related to delivering the organization's mission and achieving strategic objectives. In response to specific risks and external factors, the CPSC has identified mitigating strategies and plans for improving performance moving forward.

- **Data Collection & Analysis:** The CPSC is a data-driven agency, dependent on a wide range of data from multiple sources to provide a factual basis for identifying emerging hazards, characterizing the number and types of hazards presented by a consumer product or product class, developing voluntary and mandatory standards, and testing products to evaluate safety and compliance with established standards. Challenges include difficulty in identifying emerging risks (as compared to known hazards); and the need for new sources of data on consumer product hazards to inform agency work, given changes in where consumers seek treatment for injuries from consumer products (*e.g.*, urgent care centers vs. hospital emergency rooms).

The CPSC plans to improve the functionality and utility of consumer product-related emergency department-treated injury information collected from National Electronic Injury Surveillance System (NEISS) hospitals by assessing the feasibility of statistical modeling using population data from the U.S. Census Bureau and data from the Healthcare Cost and Utilization Project (HCUP) from the U.S. Department of Health and Human Services (HHS) to produce regional estimates, and by expanding the amount of information abstracted from emergency department medical records. The CPSC will also analyze the utility of incident data for product-related injuries at urgent care centers to explore whether data collection should be expanded to include such centers.

- **Growth of E-Commerce:** The CPSC's current compliance and enforcement strategies are largely oriented to a traditional consumer product distribution chain based on retail stores. The CPSC is challenged by adapting to changing supply chain dynamics, including the exponential growth of e-commerce. The CPSC plans to evaluate e-commerce platforms to analyze options for monitoring the marketplace and addressing issues created by the evolving global supply chain.
- **Technological Advances in Consumer Products:** The increasing prevalence of consumer products involving or manufactured using new technologies, such as IoT, electronics in wearable products, and 3-D printing, poses challenges for the CPSC's efforts to systematically identify and assess emerging product-related hazards. Consumer products involving these technologies may involve new or increased safety risks. The CPSC also needs increased access to skills and expertise in the new technologies and related fields, such as software engineering, to properly research and analyze emerging hazards in consumer products. The CPSC plans to increase collaboration and coordination with interested stakeholders, both domestic and foreign, to address potential safety issues associated with consumer products involving new technologies.
- **Recall Effectiveness:** Recalls are an important agency tool for removing unsafe products from the marketplace. Typically, the CPSC executes recalls cooperatively with affected firms. During the voluntary recall process, the agency works with firms that agree to provide notice to consumers and a remedy for potentially hazardous products. It is challenging to identify and reach affected consumers to inform them about recalls. The CPSC has worked with a wide range of stakeholders over the past year to improve recall effectiveness. The CPSC recently held a meeting with other federal agencies and major retailers to consider strategies that could improve response to recalls across the federal government. The CPSC also requested information from the public on current methods and systems that recalling firms use to assist in providing direct notice to consumers, as well as information on the use of targeted notices to reach consumers who may have purchased a recalled product. Information from these activities will help improve recall effectiveness.
- **Modernizing Information Technology Systems:** There is significant risk to CPSC mission delivery when IT systems are not incrementally updated and modernized. The CPSC's work is dependent on numerous critical data systems, including the Consumer Product Safety Risk Management System (CPSRMS) and the import surveillance Risk Assessment Methodology (RAM) system, among others. These mission-facing systems are the backbone of the CPSC's data and analytical capabilities. The agency developed an Information Resource Management (IRM) Strategic Plan, which provides a cohesive, long-term framework for improving information resource management through the execution of focused initiatives and for directing near-term priorities for critical IT systems.

Awareness Benefits Consumers

ABC's of Toy Safety

Awareness Benefits Consumers

AWARENESS

- CPSC is the agency for consumer product safety
- Leading causes of toy-related fatalities include choking and aspiration of toy parts
- Deteriorating lead paint in older homes is the greatest risk for lead poisoning—not toys

BENEFITS

- Inspections of toys is at an all time high
- Companies are finding and reporting problems to CPSC
- China is working to meet US safety standards

CONSUMERS

- Make smart purchases based on ages, ability, and interest level of a child
- Read and heed label warnings
- Be informed by signing up for safety information at www.cpsc.gov

U.S. Consumer Product Safety Commission
CPSC hotline: 800-638-2772
and 800-638-8270 (TTY)

NSN
NEIGHBORHOOD SAFETY NETWORK

Sign up to receive free NSN safety alerts and posters at

www.cpsc.gov

ANALYSIS OF FINANCIAL STATEMENTS AND STEWARDSHIP INFORMATION

Financial Performance Overview

As of September 30, 2018, the financial condition of the CPSC was sound, with adequate funds to meet planned programs and satisfactory controls in place to provide reasonable assurance that the CPSC's obligations did not exceed budget authority. The CPSC prepared its financial statements in accordance with the accounting standards codified in the Statement of Federal Financial Accounting Standards and with OMB Circular No. A-136, *Financial Reporting Requirements*.

Sources and Uses of Funds: The CPSC's resources consist primarily of funds received from two sources:

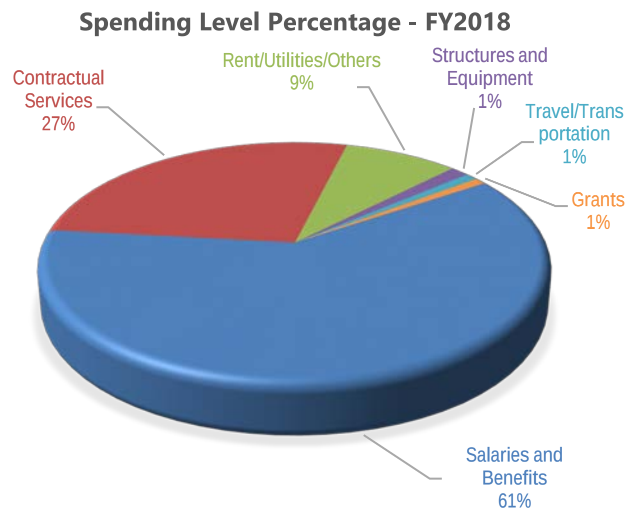
- Appropriations from Congress for the current fiscal year and unobligated balances from prior year budget authority; and
- Reimbursable agreements with other governmental organizations.

The CPSC's FY 2018 appropriation from Congress was $126.0 million, of which $1.1 million was designated for awarding and administering grants under the VGB Act Grant Program and is available until expended. Other budgetary resources available in FY 2018 included $2.9 million from offsetting collections for the CPSC's data collection, which is partially done on a reimbursable basis with other government agencies. Additional budgetary resources included $5.5 million of unobligated balances from prior years budget authority, consisting of $1.5 million from the remaining balance of the appropriated VGB Act grants funds available for obligation until expended, and a net $4.0 million from prior year expired unobligated balances not available for obligation in FY 2018 but available for upward adjustments for obligations incurred in prior years. The total budgetary resources for FY 2018 were $134.4 million. The year-over-year difference in budgetary resources available decreased by $0.9 million and was due to the cancellation of expired balances being withdrawn to the U.S. Treasury.

The CPSC made obligations of $129.1 million in FY 2018. The amounts obligated include $124.8 million for mission-related salaries and expenses; $1.1 million awarded for the VGB Act Grant Program; $2.9 million for reimbursable data collection for other government agencies; and $0.3 million in upward adjustments from of unobligated balances from prior years budget authority.

Looking at costs by type, approximately 61 percent of the FY 2018 total obligations were for salaries and benefits. The remaining 39 percent represented non-payroll operating expenses, such as services, supplies, and rent.

The following graph provides additional details on the FY 2018 expense categories:



Salaries and benefits decreased by $ 0.4 million compared to FY 2017. The amount of full time equivalents (FTEs) decreased by 20 FTEs from FY 2017 to FY 2018. The large decrease in FTEs did not reduce payroll significantly due to increased costs associated with the FY 2018 pay raise and locality adjustment.

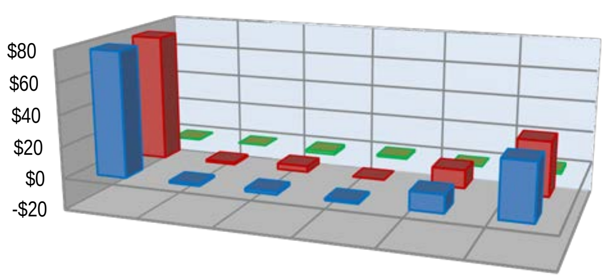
Contractual services increased by $1.6 million or 5 percent from the prior year. This was due primarily to the decrease in spending for structures and equipment (discussed below), offsetting the increase in contractor services supporting mission initiatives and projects.

Grant awards increased by $1.1 million or 100 percent in FY 2018, due to the issuance of VGB Act grants to five awardees. CPSC did not award any new grants in FY 2017.

Structures and equipment decreased by $1.8 million or 49 percent, primarily driven by higher depreciation and amortization costs of equipment and projects, including significant asset disposals totaling approximately $0.7 million, compared to the prior year. In addition, the tenant improvement allowance (TIA) contracted through the agency's leases with the General Services Administration (GSA) for CPSC HQ and Sample Storage Facility (SSF) expired, and the remaining balances will be amortized as a rent offset for the duration of the leases.

The graph below compares the increase/decrease by function for the fiscal years ended September 30, 2018 and September 30, 2017:

Comparative Cost by Function
(in millions)



	Salaries & Benefits	Travel & Transport	Structure & Equip	Grants	Rent, Utilities & Others	Contract Services
FY 2018	$79.1	$1.2	$1.8	$1.1	$11.0	$34.9
FY 2017	$79.5	$1.2	$3.6	$0.0	$11.1	$33.3
Increase (Decrease)	$(0.4)	$0.0	$(1.8)	$1.1	$(0.1)	$1.6

The Statement of Budgetary Resources (SBR) provides additional information on the available funding and obligations of the CPSC and is described in more detail later in this section.

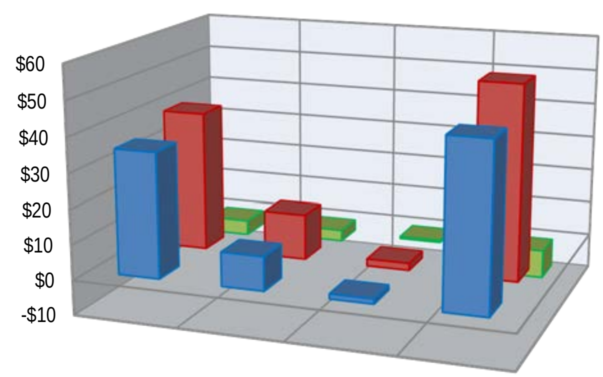
Audit Results: The CPSC received an unmodified audit opinion on its FY 2018 financial statements.

Financial Statement Highlights: The CPSC's financial statements summarize the financial position and financial activities of the agency. The financial statements and the notes to the financial statements appear in the Financial Section of this report, beginning on page 37.

Analysis of the Balance Sheet

The CPSC's assets totaled $46.7 million as of September 30, 2018. The changes in key asset line items as of the fiscal year ended September 30, 2018, compared to September 30, 2017, are shown in the following table:

Comparative Asset Balances
(in millions)



	Fund Balance with Treasury	Property and Equipment, net	AR & Other Assets	Total Assets
FY 2018	$35.6	$9.7	$1.4	$46.7
FY 2017	$39.9	$12.9	$2.0	$54.8
Increase (Decrease)	$(4.3)	$(3.2)	$(0.6)	$(8.1)

The *Fund Balance with Treasury* consists of appropriated funds and other funds maintained at the U.S. Treasury until final disposition. Fund Balance with Treasury represented the CPSC's largest asset of $35.6 million as of September 30, 2018, a decrease of $4.3 million from the prior year, which was due primarily to an accrued civil penalty receipt collected in FY 2017. The remaining decrease was for a higher beginning cash balance of funds in FY 2017 versus FY 2018.

Property and Equipment, net, consists of the net value of the CPSC's leasehold improvements, equipment, furniture and fixtures, computer hardware and software, and construction in progress.

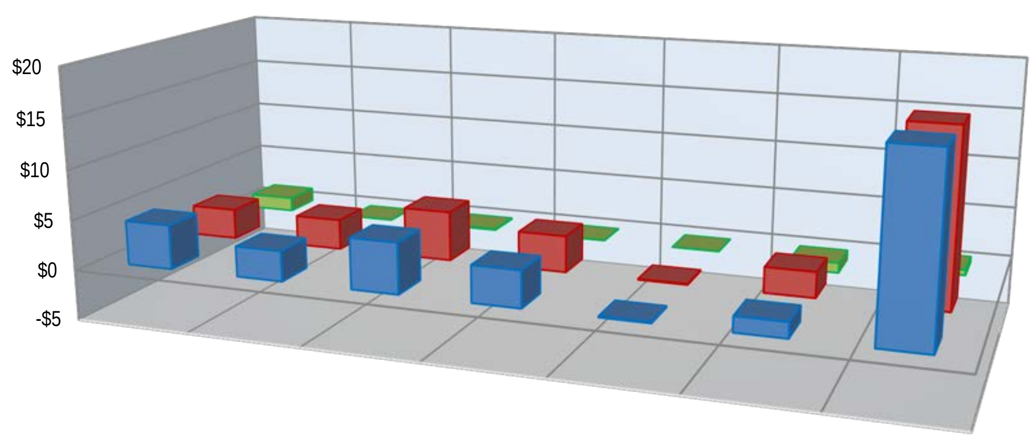
Property and Equipment had a balance of $9.7 million as of September 30, 2018, a decrease of $3.2 million from the prior year. The decrease resulted from depreciation exceeding new property and equipment acquisitions.

Accounts Receivable (AR) and Other Assets is comprised of uncollected amounts from civil fines and penalties levied by the CPSC and unpaid Freedom of Information Act (FOIA) fees. *Other Assets* represents advances to other federal agencies for interagency services, such as participation in the National Nanotechnology Initiative (NNI) (Nano.gov) and operating services, such as payroll processing (Department of Interior) and financial systems and services (Department of Transportation [DOT]); the CPSC acquires services from other federal agencies through interagency agreements.

AR and Other Assets had a balance of $1.4 million as of September 30, 2018, a decrease of $ 0.6 million from the prior year. The decrease was due to the TIA expiration from the CPSC's rental lease agreement with the GSA.

The CPSC's liabilities were $17.6 million as of September 30, 2018. The comparative balances of liability categories for the fiscal years ended September 30, 2018 and September 30, 2017, are shown in the following graph and table:

Comparative Liability Balances
(in millions)



	Accounts Payable	Salaries and Benefits	Accrued Annual Leave	Workers' Compensation	Custodial Liability	Tenant Improvement Liability	Total Liabilities
FY 2018	$4.4	$3.0	$5.0	$3.6	$0.1	$1.5	$17.6
FY 2017	$3.0	$3.0	$4.9	$3.6	$0.1	$2.5	$17.1
Increase (Decrease)	$1.4	$0.0	$0.1	$0.0	$0.0	$(1.0)	$0.5

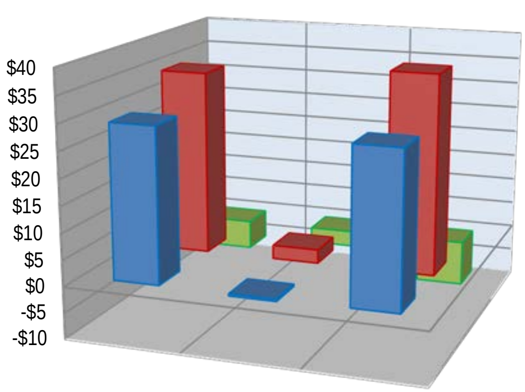
The total liability increased by $0.5 million from FY 2017 and is attributable to an increase in accounts payable and partially offset by a decrease in the tenant improvement liability. The total accounts payable balance for intragovernmental and non-intragovernmental increased by $1.4 million. The increase is due to year-end projects being completed and the subsequent billing for goods and services as compared to prior year. The increase was offset by a decrease in the tenant improvement liability of approximately $1 million related to TIA expiration.

The Statement of Changes in Net Position reports the change in net position during the reporting period. Net position is affected by changes in its two components: Cumulative Results of Operations, and Unexpended Appropriations. The difference between total assets and total liabilities is net position. The CPSC's net position was $29.1 million as of September 30, 2018, representing a decrease of $8.6 million from the prior year (analysis below).

The comparison of net position for the fiscal years ended September 30, 2018 and September 30, 2017, is shown in the chart below:

Comparative Net Position

(in millions)



	Unexpended Appropriations	Cumulative Results of Operations	Total Net Position
FY 2018	$29.5	$(0.4)	$29.1
FY 2017	$35.1	$2.6	$37.7
Increase (Decrease)	$(5.6)	$(3.0)	$(8.6)

The decrease in total unexpended appropriations was $5.6 million in FY 2018 due to disbursements associated with projects obligated in prior fiscal years, namely FY 2016 and FY 2015.

The $3 million decrease in cumulative results of operations was due to current year depreciation expenses charged to operations of $5.8 million, offset by net additions to capitalized equipment of $1.8 million, and the tenant improvement liability write off and amortization of $1 million.

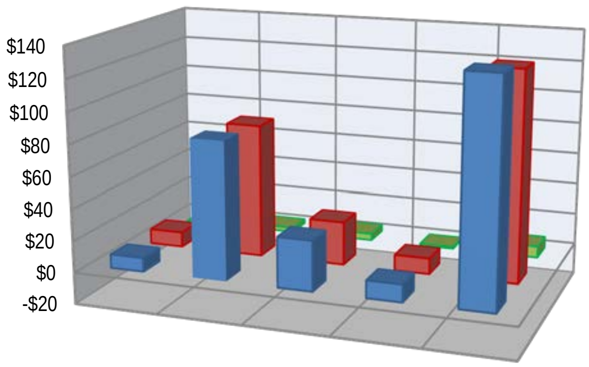
Analysis of the Statement of Net Cost

The Statement of Net Cost (SONC) represents CPSC's gross costs less revenue earned for each of the four strategic goals in the CPSC's *2018–2022 Strategic Plan*. The graphs and chart below describe net cost of operations for the fiscal years ended September 30, 2018 and September 30, 2017:

Net Cost Of Operations - FY2018

(in millions)

Comparative Net Cost of Operations By Goal
(in millions)



	Goal 1 – Workforce	Goal 2 – Prevention	Goal 3 – Response	Goal 4 – Communication	Net Cost of Operations
FY 2018	$8.7	$86.3	$31.4	$10.9	$137.4
FY 2017	$9.4	$83.6	$27.2	$9.9	$130.1
Increase (Decrease)	$(0.7)	$2.7	$4.2	$1.0	$7.3

The CPSC's net cost of operations was $137.4 million for the fiscal year ended September 30, 2018, an increase of $7.3 million from the prior year. A portion of the increased costs are attributable to overhead items for imputed pension and health costs related to revised benefit cost factors via the Office of Personnel Management (OPM) in FY 2018 and depreciation costs charged to operations. Other increases are related to spending on mission initiatives. Significant fluctuation in costs are discussed below:

Strategic Goal 2, Prevention, has the highest net cost of operations, totaling $86.3 million. Total costs with this goal increased by $2.7 million in FY 2018; however, this was offset by a decrease in earned revenue of $0.5 million. Reimbursable agreements with other federal agencies to collect and analyze injury data generated earned revenue.

Strategic Goal 3, *Response*, costs totaled $31.4 million in FY 2018, an increase of $4.2 million from the prior year. The cost increases are mostly attributed to reallocation of projects that occurred when the agency revised its strategic plan, as well as some increase in the overhead costs allocated to this goal.

Strategic Goal 4, *Communication*, costs totaled $10.9 million in FY 2018, an increase of $1 million from the prior year, which is due primarily to an increase in overhead allocated to this goal.

The reconciliation of the SONC of Operations to Budget is in Note 15 of the Notes to Financial Statements, in the Financial Section of this report.

Analysis of the Statement of Budgetary Resources

The Statement of Budgetary Resources (SBR) shows the sources of funding available and their status as of September 30, 2018. The SBR represents the relationship between budget authority and budget outlays and reconciles obligations to total outlays. This statement also includes unobligated balances from prior years budget authority.

For the fiscal year ended September 30, 2018, the CPSC had available budgetary resources of $134.4 million, mainly comprised of the FY 2018 appropriations spending authority and prior years unobligated balances. This represented a net decrease of $0.9 million from the FY 2017 available budgetary resources of $135.3 million.

Analysis of the Statement of Custodial Activity

The Statement of Custodial Activity presents the total custodial cash collections and the disposition of collections. Revenue collected is derived from two primary sources: civil penalties paid by regulated entities and fees collected from FOIA requests. This statement precludes reported revenue billed and collected by the CPSC on behalf of the U.S. government to be duplicated as reported revenue on the government's SONC.

The CPSC recorded $27.3 million in civil penalty cash collections for the fiscal year ended September 30, 2018, compared to $29.5 million for the fiscal year ended September 30, 2017. The decrease is attributable to the agency seeking less in aggregate civil penalties relative to the prior year.

Total custodial revenue and disposition of collections as of September 30, 2018 was $27.3 million compared to $25.6 million as of September 30, 2017. The increase is attributable to the decrease in civil penalties collected offset by less accrued collections yet to be transferred to U.S. Treasury in the amount of $1.7 million.

Controls, Systems, and Legal Compliance

This section of the report provides information on the CPSC's compliance with the following:

- Federal Managers' Financial Integrity Act of 1982 (FMFIA)
- OMB Circular No. A-123, Management's Responsibility for Enterprise Risk Management and Internal Control
- Federal Financial Management Improvement Act of 1996 (FFMIA)
- Prompt Payment Act
- Debt Collection Improvement Act of 1996
- Digital Accountability and Transparency Act of 2014 (DATA Act)
- Federal Information Security Modernization Act (FISMA)

Federal Managers' Financial Integrity Act of 1982 (FMFIA)

The FMFIA requires federal agencies to establish controls to reasonably ensure that: (i) obligations and costs comply with applicable law; (ii) assets are safeguarded against waste, loss, unauthorized use, or misappropriation; and (iii) revenues and expenditures are properly recorded and accounted. The FMFIA incorporates program, operational, and administrative areas, as well as accounting and financial management. The Chairman is required to provide an assurance statement on the adequacy of management controls and conformance of financial systems with government-wide standards. The CPSC believes that maintaining integrity and accountability is essential for responsible stewardship over assets and resources and significantly enhances the effectiveness of the CPSC leadership, in addition to maximizing favorable program outcomes.

The CPSC's management is responsible for implementing and maintaining controls to achieve programmatic goals and to evaluate their internal controls. Each manager assesses internal controls within the manager's applicable area of responsibility. Additional support for the individual offices' assurance statements resulted from internal control diagnostic checklists, which were completed by CPSC managers who lead major mission or support functions. The diagnostic checklists assisted CPSC managers in evaluating internal controls in their areas of responsibility and provided a way for offices to identify and address internal control deficiencies, weaknesses, or other issues. Responses from the diagnostic checklists completed by the CPSC managers are cross-referenced to the 17 principles from the U.S. Government Accountability Office's (GAO) "Standards for Internal Control in the Federal Government," more commonly known as the "Green Book," revised in September 2014. The Green Book guidance became effective beginning FY 2016. The diagnostic checklist evaluations are also used in combination with the Managers' Statements of Assurance (SoA), which evaluate and report the adequacy of internal controls. The results of the checklists and the Managers' SoAs were aggregated and assessed to inform the overall FMFIA Section 2 management assurance for the agency. The SoAs were based on several sources of information, including:

- Management knowledge gained from the daily operation of the agency's programs;
- Management reviews;
- Monitoring results of internal control reviews;
- Annual performance plans;
- Inspector General reports; and
- The results of the internal controls diagnostic checklists.

For FY 2018, the CPSC updated its comprehensive Enterprise Risk Management (ERM) framework in accordance with the revised OMB Circular No. A-123. The agency updated its ERM Plan, which describes the agency's major ERM activities and governance structure and its risk profile. The Risk Management Council (RMC) continues to provide substantive input into the agency's Enterprise Risk

Profile to identify and remediate eminent risks facing the agency.

The CPSC received an unmodified audit opinion on its FY 2018 financial statements. The independent auditor stated that the financial statements present fairly, in all material respects, the financial position of the CPSC, and its net costs, changes in net position, budgetary resources, and custodial activity, in accordance with accounting principles generally accepted in the United States for the year ended September 30, 2018.

OMB Circular No. A-123, Management's Responsibility for Enterprise Risk Management and Internal Control

The CPSC conducts a comprehensive assessment of internal control over financial reporting to inform the CPSC's documented and structured financial management internal control program, and to demonstrate the integrity and reliability of reported financial information. In FY 2018, the CPSC evaluated its internal controls and performed assessments of internal control for financial reporting, consistent with OMB Circular No. A-123, Appendix A. Management's internal controls activity in financial reporting includes periodic, risk-informed testing and evaluation of key internal controls and developing and implementing corrective action plans, as needed, to address non-conformance's identified by the evaluations. Results of the internal controls testing for the financial cycles were disclosed to the independent auditor. No significant deficiencies or material weaknesses were identified during the assessment. In addition, deficiencies identified in FY 2017 have been resolved. Based on the results of management's evaluation, the CPSC provided reasonable assurance that the internal controls for financial reporting were operating effectively and that no material weaknesses were found in the design or operation of those internal controls as of September 30, 2018.

Federal Financial Management Improvement Act of 1996 (FFMIA)

The FFMIA requires federal agencies to implement and maintain systems that substantially comply with (i) federal financial management system requirements, (ii) applicable federal accounting standards, and (iii) the U.S. government standard general ledger at the transaction level. The FFMIA requires the Chairman to determine the agency's financial management system compliance with the FFMIA and to develop corrective action plans (CAP) for noncompliant financial systems, as needed.

FY 2018 FFMIA and Section 4 of the FMFIA Results

As of September 30, 2018, the CPSC evaluated its core financial management systems to determine if they were compliant with applicable federal requirements and accounting standards required by the FFMIA. This year, the CPSC also evaluated IT General Controls for each of its financial systems as part of the internal controls for financial reporting review and evaluation; no significant deficiencies or material weaknesses were identified. The CPSC also uses a financial system provided by a Shared Service Provider (SSP), operated by the Department Of Transportation's Enterprise Services Center (ESC) for the processing of financial data. The CPSC reviewed the Independent Audit Report Statement on Standards for Attestation Engagements 18 (SSAE-18), conducted on behalf of the ESC. The independent auditors assessed controls for this financial management system and found that it was in substantial compliance with the federal financial management system requirements, applicable federal accounting standards, and the U.S. standard general ledger at the transaction level. The system met federal requirements and accounting standards required by the FFMIA and Section 4 of the FMFIA.

Additionally, the CPSC uses the U.S. Department of the Interior's Federal Personnel and Payroll System (FPPS) for the processing of the CPSC's payroll data. The SSAE-18 report for FPPS conducted by an independent auditor provided reasonable assurance that controls were suitably designed and that the control objectives were achieved. Accordingly, FPPS meets the federal financial management system requirements, applicable federal accounting standards and the U.S. standard general ledger at the transaction level, as required by the FFMIA. A review of the CPSC's financial management systems in FY 2018 demonstrated that the agency complies with the FFMIA. In addition, the agency hired an independent contractor to perform a management review of the contract writing system, the Procurement Request Information System Management (PRISM). The review did not evidence any material weaknesses or significant control deficiencies. The review also concluded that CPSC management was effectively safeguarding the PRISM system and the data resident on the system, that CPSC had conducted a Security Control Assessment and took timely corrective actions, and that PRISM was well integrated into the overall Information Technology Risk Management Program.

Prompt Payment Act

The Prompt Payment Act requires federal agencies to make timely payments to vendors for supplies and services, to pay interest penalties when payments are made after the due date, and to take cash discounts when they are economically justified. As of September 30, 2018, 98 percent of the CPSC's payments that were subject to the Prompt Payment Act were made on time. In FY 2018, the CPSC incurred $2,056 in interest penalties and made 99 percent of its vendor payments electronically.

Improper Payment Elimination and Recovery Improvement Act (IPERIA)

The Improper Payments Elimination and Recovery Act (IPERIA) of 2012 requires agencies to report annually on all programs and activities, identify those that may be susceptible to significant improper payments, estimate annual improper payments in the susceptible programs and activities, and report the results of improper payment activities. A detailed report of CPSC's improper payment activities is presented in the Other Information section.

Debt Collection Improvement Act of 1996

The Debt Collection Improvement Act of 1996 was enacted to enhance the ability of the federal government to service and collect debts. As of September 30, 2018, delinquent debt was $0, which was zero percent of the agency's FY 2018 billings of $29.8 million. The CPSC pursues the collection of delinquent debt and refers all eligible delinquent debt more than 120 days delinquent to the U.S. Treasury for collection.

Digital Accountability and Transparency Act of 2014 (DATA ACT)

The Digital Accountability and Transparency Act of 2014, commonly referred to as the DATA Act, requires agencies to establish common standards for financial data provided by all government agencies and to expand the amount of data that agencies must provide to the government website, USASpending.gov. The CPSC met the government-wide DATA Act reporting requirements in FY 2018.

Federal Information Security Modernization Act (FISMA)

As mandated by FISMA, the agency continues to maintain an information security program to manage information technology in accordance with National Institute of Standards and Technology (NIST) requirements. During FY 2018, the CPSC completed independent assessments of a majority of its significant information systems. The CPSC also implemented two-factor authentication for standard users, implemented Domain-based Message Authentication, Reporting & Conformance (DMARC) policy for the agency's email system (Binding Operational Directive (BOD) 18-01), completed Kaspersky software removal from agency systems (BOD 17-01), implemented Federal Information Processing Standards (FIPS) 140-2 encryption for agency Virtual Private Network (VPN) servers, and implemented two-factor authentication for agency web-based email system. The CPSC continues to leverage one Federal Risk and Authorization Management Program (FedRAMP) authorization for the cloud hosting of the agency's public website.

Financial Management Systems Strategy

CPSC's works to maintain and enhance financial management systems to promote operational effectiveness and efficiency, reliability and timeliness of data, and to support requirements for the agency's strategic goals. The CPSC obtains hosting and application management services from

ESC, a federal SSP using the Delphi financial reporting system for accounting and travel management services.

The Delphi financial management system is used for general ledger, accounts payable, accounts receivable, and budget execution and reporting capabilities. The CPSC also receives services from the Department of the Interior's (DOI) Interior Business Center (IBC) for its Federal Personnel/Payroll System (FPPS), which is interfaced with Delphi.

In response to the President's Management Agenda Goal 5 and the Agency Reform Plan, the CPSC studied options in FY 2018 for expanding administrative shared services to include acquisition systems, some acquisition support services, and integration of acquisition and financial management systems within a single shared services provider. The agency decided upon a shared services agreement with the Department of Treasury's Administrative Resource Center (ARC) within the Bureau of the Fiscal Service. The transition will enable significant improvements in operational efficiency and reporting, and will result in cost savings in subsequent years when fully implemented. The agency will being implementing the ARC services in the second half of FY 2019.

Management Assurance Statement

U.S. CONSUMER PRODUCT SAFETY COMMISSION
BETHESDA, MD 20814

FY 2018 FEDERAL MANAGERS' FINANCIAL INTEGRITY ACT STATEMENT

Federal Managers' Financial Integrity Act of 1982

The Consumer Product Safety Commissions' (CPSC) management is responsible for establishing and maintaining effective internal control and financial management systems that meet the objectives of the Federal Managers' Financial Integrity Act of 1982 (FMFIA).

For FY 2018, CPSC conducted an assessment of its internal controls over the effectiveness and efficiency of operations, as well as compliance with applicable laws and regulations in accordance with OMB Circular A-123, Management's Responsibility for Enterprise Risk Management and Internal Control. Based on the results of this assessment, CPSC can provide reasonable assurance that its internal controls over operations were operating effectively and efficiently, and were in compliance with applicable laws and regulations as of September 30, 2018.

In addition, CPSC conducted an assessment of the effectiveness of internal controls over financial reporting, which included safeguarding of assets and compliance with applicable laws and regulations, in accordance with the requirements of Appendix A of OMB Circular A-123. Based on the results of this assessment, CPSC can provide reasonable assurance that its internal controls over financial reporting as of September 30, 2018 were operating effectively.

Federal Financial Management Improvement Act of 1996

The Federal Financial Management Improvement of 1996 (FFMIA) requires agencies to implement and maintain financial management system that are substantially in compliance with Federal financial management system requirements, Federal accounting standards, and the United States Government Standard General Ledger at the transaction level. All CPSC financial management systems substantially complied with FFMIA as of September 30, 2018.

Ann Marie Buerkle
Acting Chairman
November 7, 2018

LOOKING AHEAD

The CPSC's mission is to keep consumers safe and works to reduce consumer product-related injury and death rates by using analysis, regulatory policy, compliance and enforcement, and education to identify and address product safety hazards.

During FY 2018, two Commissioners left the CPSC, one Democrat and one Republican. Two new Commissioners, both Republicans, were nominated by the President and confirmed by the Senate, one in June and one in September. These two new confirmations moved the Commission from a 3-2 Democratic majority at the beginning of FY 2018 to a 3-2 Republican majority by the end of FY 2018. These political changes will likely result in new policy directions and new priorities for the agency in FY 2019. In addition, the President has nominated and recommended to the Senate that the acting Chairman be the permanent Chairman. That appointment was pending at the end of FY 2017 and continues to be pending at the end of FY 2018, creating some uncertainty as to who will serve as agency-head moving forward.

Management acknowledges the challenges identified by the Office of the Inspector General (OIG). Strengthening and adhering to a cohesive system of internal controls has been and will continue to be an area of emphasis in FY 2019. There are relatively new processes within the agency, including an ERM process, to maintain a risk profile and identify and remediate risks that could prevent the agency from achieving its mission; these processes continue to evolve and mature. The agency is especially susceptible to resource uncertainty given its small size; small dollar changes at CPSC can have pronounced impacts. Accordingly, the agency is constantly looking at efficiency improvements to maximize buying power for every dollar appropriated. Lastly, management is working diligently on IT security to ensure that proper systems and protocols are in place to support the mission in a safe and secure manner. The agency has already taken a number of steps to improve IT security, including working to recruit and retain IT security experts, while acknowledging more must be done, pending availability of resources.

The CPSC is a small, single appropriation agency within a much larger overall discretionary federal budget. The challenge the CPSC faces in the budget environment is absorbing increased costs resulting from inflation while retaining a minimum required workforce strength. The CPSC is committed to working within the resources provided by Congress and is mindful of the fiscal constraints at a government-wide level. The agency will continue to communicate its specific circumstances and needs with adequate analytical support.

The CPSC's FY 2019 Budget Request to Congress identified four priorities for the coming year. Those priorities are:

- **Focus on Risk**: The CPSC will focus its resources on the highest-priority consumer product safety risks. The CPSC intends to accomplish this by using data to guide decisions and policy, relying on and funding the voluntary standards process, prioritizing standards-setting activities, and revisiting the efficacy of existing regulations, as appropriate.

- **Import Surveillance:** The CPSC will continue to support import surveillance by operating and maintaining the RAM system to identify and stop noncompliant imported products from entering the U.S. marketplace. The CPSC will accomplish this by allocating full-time staff to conduct inspections and clear compliant cargo quickly at the highest-volume ports of entry.

- **Collaboration, Education, and Outreach:** The CPSC will emphasize collaboration, education, and outreach by engaging all stakeholders through forums, seminars, webinars, technical stakeholder-to-government discussions, and workshops. The CPSC will accomplish this by continuing to emphasize and expand the work of the agency's Small Business Ombudsman, proactively engaging industry and international stakeholders at all levels, and providing information and education to consumers so they can make informed decisions. The CPSC will also collaborate with other federal agencies and industry through research and sharing data to leverage the broader stakeholder community to advance consumer product safety.

- **Data-Driven:** The CPSC will expand the sources and types of data analysis used to identify and assess hazards and inform compliance decisions. The CPSC will accomplish this by augmenting analytical and trend-assessment protocols, thereby expanding CPSC's capabilities in identifying and analyzing emerging hazards and reinforcing the data-driven nature of the agency's work.

Also in FY 2019, the CPSC plans to transition to a new federal shared services provider for some financial management services. In the fourth quarter of FY 2019, the agency plans to transition all of its accounting processes and systems from DOT to U.S. Treasury. In addition, the agency will transition its internal acquisition system to U.S. Treasury. This changeover will be a significant undertaking, resulting in the migration of our financial and contract data and the updating of our policies and procedures to coincide with the processes of the new provider. The changeover is expected to result in better internal controls, more efficient financial reporting, and tangible cost savings post-transition.

As the CPSC looks ahead to FY 2019 and beyond, the agency will need to continue to communicate its broad and important mission to Congress, put forward strong, analytically justified requests for appropriations, and prioritize the most important safety work.

Limitations of the Financial Statements

The financial statements have been prepared to report the financial position and results of operations of the CPSC for FY 2018 and FY 2017, pursuant to the requirements of Title 31 of the U.S. Code, section 3515 (b).

Although the statements have been prepared from the CPSC's books and records, in accordance with Generally Accepted Accounting Principles (GAAP) for federal entities and the formats prescribed by OMB, the statements are, in addition to the financial reports, used to monitor and control budgetary resources, which are prepared from the same books and records.

The statements should be read with the realization that they are for a component of the U.S. government, a sovereign entity.

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FINANCIAL SECTION

This Section of the AFR contains the Chief Financial Officer's message, the Independent Auditor's Report, the CPSC's financial statements, notes to financial statements, and required supplementary information (RSI).

The CPSC prepares these statements in conformity with the U.S. Generally Accepted Accounting Principles (GAAP) for the federal government and OMB Circular No. A-136, Financial Reporting Requirements.

MESSAGE FROM THE CHIEF FINANCIAL OFFICER

The U.S. Consumer Product Safety Commission (CPSC) takes seriously its responsibility for stewardship of the resources for which it is entrusted and for reporting on the CPSC's budget and performance outcomes. This report is the culmination of our efforts to present the CPSC's financial status and provide transparency and accountability to the American public. This report provides a comprehensive view of the financial activities undertaken to advance the CPSC's safety mission to protect the public against unreasonable risks of injury from consumer products through education, safety standards activities, regulation, and enforcement.

This past fiscal year, the CPSC has built upon its commitment for sustained financial management excellence. The CPSC's significant financial management accomplishments in FY 2018 are:

- The CPSC prepared a business case analysis to evaluate more cost effective shared services alternatives in support of the President's Management Agenda and Agency Reform Plan. Because of the analysis, the CPSC is transitioning to a new shared-services provider for accounting and acquisition support during FY 2019.
- The CPSC expanded its fraud analysis, identifying and evaluating 36 risk factors and subsequent mitigation activities to reduce the likelihood of fraud at an agency-wide financial process level. This analysis built upon prior efforts to comply with the Fraud Reduction and Data Analytics Act of 2015.
- The CPSC strengthened its payments internal controls to reduce the risk of improper payments and improve the veracity of approvals for goods and services received.
- The CPSC continued to integrate risk management into financial management processes and procedures. This year, the agency identified risk factors for all financial management control objectives and aligned the risks to the appropriate internal control mitigation activities.
- The CPSC made financial management audit remediation a major priority in FY 2018, taking corrective action on 100% of prior year audit recommendations. The Office of the Inspector General has been helpful in providing feedback on our progress and closing findings that meet the intent of their recommendations.
- The CPSC received its third consecutive Certificate of Excellence in Accountability Reporting award from the Association of Government Accountants for its FY 2017 Agency Financial Report.

The CPSC was satisfied to have received an unmodified opinion on the FY 2018 financial statements. The accomplishments in FY 2018 are the result of the efforts of dedicated, hard-working professionals across the CPSC. I appreciate the continued support of the entire Commission, with special thanks to the Office of the Inspector General, as we continue to work together to sustain financial management excellence at the CPSC.

Sincerely,

Jay Hoffman

Jay Hoffman
November 8, 2018

INDEPENDENT AUDITOR'S REPORT

Office of Inspector General
U. S. CONSUMER PRODUCT SAFETY COMMISSION

November 7, 2018

TO: Ann Marie Buerkle, Acting Chairman
Robert S. Adler, Commissioner
Elliot F. Kaye, Commissioner
Dana Baiocco, Commissioner
Peter A. Feldman, Commissioner

FROM: Christopher W. Dentel, Inspector General

SUBJECT: Audit of the Consumer Product Safety Commission's Fiscal Year 2018 Financial Statements

Pursuant to the Accountability of Tax Dollars Act of 2002, this letter transmits the Independent Auditors' Report issued by CliftonLarsonAllen, LLP (CLA), for the fiscal year ending September 30, 2018. The audit was performed under a contract with, and monitored by, the Office of Inspector General (OIG), in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and applicable provisions of Office of Management and Budget (OMB) Bulletin No. 19-01, Audit Requirements for Federal Financial Statements.

Opinion on the Financial Statements

CLA audited the financial statements of the U.S. Consumer Product Safety Commission (CPSC), which comprise the balance sheet as of September 30, 2018 and 2017, and the related statements of net cost, changes in net position, budgetary resources, and custodial activity for the year then ended, and the related notes to the financial statements (financial statements). The objective of the audit was to express an opinion on the fair presentation of those financial statements. In connection with the audit, CLA also considered the CPSC's internal control over financial reporting and tested the CPSC's compliance with certain provisions of applicable laws and regulations that could have a material effect on its financial statements.

In CLA's opinion, the financial statements present fairly, in all material respects, the financial position, net cost, changes in net position, budgetary resources, and custodial activity of the CPSC as of, and for the years ending September 30, 2018 and 2017, in conformity with accounting principles generally accepted in the United States of America.

Report on Internal Control

In planning and performing the audit of the financial statements of the CPSC, CLA considered the CPSC's internal control over financial reporting (internal control) as a basis for designing auditing procedures for the purpose of expressing their opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the CPSC's internal control. Accordingly, CLA did not express an opinion on the effectiveness of the CPSC's internal control.

Because of inherent limitations in internal controls, including the possibility of management override of controls; misstatements, losses, or noncompliance may nevertheless occur and not be detected. According to the American Institute of Certified Public Accountants:

- A control deficiency 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 misstatements on a timely basis.

- A material weakness is deficiency, or 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 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.

CLA's consideration of internal control was for the limited purpose described in the first paragraph in this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. CLA did not identify deficiencies in internal control that CLA would consider to be a material weakness, as defined above. However, material weaknesses may exist that have not been identified.

Report on Compliance with Laws and Regulations

CPSC management is responsible for complying with laws and regulations applicable to the agency. To obtain reasonable assurance about whether the CPSC's financial statements are free of material misstatements, CLA performed tests of compliance with certain provisions of laws and regulations, noncompliance which could have material effect on the determination of financial statement amounts, and certain other laws and regulations specified in OMB Bulletin No. 19-01. CLA did not test compliance with all laws and regulations applicable to the CPSC.

CLA's tests of compliance with laws and regulations described in the audit report disclosed one instance of noncompliance that is required to be reported in accordance with Government Auditing Standards and OMB Bulletin 19-01.

This instance involved the CPSC's noncompliance with the Improper Payments Elimination and Recovery Act (IPERA) in FY 2017 and was first reported in the OIG's Review of the CPSC's Compliance with IPERA for FY 2017.

The determination that the CPSC was not in compliance with IPERA in FY 2017 was based on the following three factors. First, the CPSC risk assessment process did not always attribute risk in a reasonable manner. Consequently, the CPSC was exposed to potential improper payments. Second, the CPSC did not obtain a statistically valid improper payment estimate for non-payroll activities consistent with the requirements of OMB M-15-02. Finally, the CPSC exceeded OMB's improper payment threshold of 10 percent by reporting an improper payment rate of 67 percent of non-payroll disbursements (about $21.1 of $31.3 million.) OMB M-15-02 requires agencies to report a "gross improper payment rate of less than 10 percent . . ." It should be noted that the vast majority of these payments were improper because the individuals authorizing the payments lacked the legal authority to do so, not necessarily because the payments were fraudulent or wasteful.

The status of the CPSC's compliance with IPERA in FY 2018 is outside of the scope of the FY 2018 Financial Statement Audit conducted by CLA. As such, neither CPSC OIG nor CLA formally evaluated the CPSC's compliance with IPERA for FY 2018 and neither CLA nor CPSC OIG offers a formal opinion regarding same.

The CPSC's FY 2018 AFR states the CPSC determined that in FY 2018 there were payment activities that met the definition of "significant improper payment" and acknowledges that there were $29.1 million in improper payments made in its Non-Payroll program. The CPSC attributes the vast majority of these payments to administrative processing errors related to insufficient documentation in the agency's receipt and acceptance process.

The statutorily required IPERA review covering FY 2018 will be completed in May 2019. This office will issue a formal opinion regarding the CPSC's compliance with IPERA at that time.

OIG Evaluation of CliftonLarsonAllen's Audit Performance

We reviewed CLA's report and related documentation and made necessary inquiries of its representatives. Our review, as differentiated from an audit in accordance with Government Auditing Standards, was not intended to enable the OIG to express, and we do not express an opinion on the CPSC's financial statements; nor do we provide conclusions about the effectiveness of internal control or conclusions on CPSC's compliance with laws and regulations. CLA is responsible for the attached auditor's report. However, the OIG review disclosed no instances where CLA did not comply, in all material respects, with Government Auditing Standards.

We appreciate the courtesies and cooperation extended to CLA and the OIG staff during the audit. If you should have any questions concerning this report, please contact my office on (301) 504-7501.

Attached: Audit Report

CliftonLarsonAllen

CliftonLarsonAllen LLP

www.cliftonlarsonallen.com

INDEPENDENT AUDITORS' REPORT

Inspector General
United States Consumer Product Safety Commission

Chairman
United States Consumer Product Safety Commission

Report on the Financial Statements

We have audited the accompanying financial statements of the United States Consumer Product Safety Commission (Commission), which comprise the balance sheets as of September 30, 2018 and 2017, and the related statements of net cost, changes in net position, the combined statements of budgetary resources, and custodial activity for the years then ended, and the related notes to the financial statements (financial statements).

Management's Responsibility for the Financial Statements

Commission 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 (U.S.); this includes 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.

Auditors' Responsibilities

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the U.S.; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and Office of Management and Budget (OMB) Bulletin No. 19-01, *Audit Requirements for Federal Financial Statements* (OMB Bulletin 19-01). Those standards and OMB Bulletin 19-01 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purposes of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit of financial statements also involves evaluating the appropriateness of the accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion on the Financial Statements

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the U.S. Consumer Product Safety Commission as of September 30, 2018 and 2017, and its net costs, changes in net position, budgetary resources, and custodial activity for the years then ended, in accordance with accounting principles generally accepted in the U.S.

Other Matters

Required Supplementary Information
Accounting principles generally accepted in the U.S. require that the information in the Commission's Management Discussion and Analysis (MD&A) and other Required Supplementary Information (RSI) section (i.e. the Combining Statement of Budgetary Resources by Fund), be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Federal Accounting Standards Advisory Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the MD&A and other RSI in accordance with auditing standards generally accepted in the U.S., which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on this information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information
Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Message from the Chairman, the Message from the Chief Financial Officer, Other Information and Appendices are presented for purposes of additional analysis and is not a required part of the financial statements. In addition, management has included references to information on websites or other data outside of the Agency Financial Report. This information has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Commission's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control or on management's assertion on internal control included in the MD&A. Accordingly, we do not express an opinion on the effectiveness of the Commission's internal control or on management's assertion on internal control included in the MD&A.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

A *deficiency in internal control* 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 Commission'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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance with Laws, Regulations, Contracts and Grant Agreements

As part of obtaining reasonable assurance about whether the Commission's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct effect on the determination of material financial statement amounts and disclosures. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed one instance of noncompliance that is required to be reported in accordance with *Government Auditing Standards* and OMB Bulletin 19-01, summarized as follows:

> The *Review of the CPSC's Compliance with Improper Payments Elimination and Recovery Act* (IPERA program) *for Fiscal Year 2017,* issued by the Commission's Office of Inspector General (OIG) included three findings of non-compliance. The findings were related to: (1) risk assessment process could be improved; (2) exceeded Federal Improper Payment Rate; and (3) lack of a statistically valid estimate for non-payroll activities. In fiscal year 2018, the CPSC reported all of the OIG's recommendations to correct the underlying conditions were implemented. The improper payments were caused by insufficient documentation of invoice approval delegations. There was no monetary loss to the taxpayer.
>
> The *Review of Vendor Payments in 2017*, issued by the OIG reported insufficient documentation in the agency's receipt and acceptance process. In fiscal year 2018, the CPSC reported that all of the OIG's recommendations to remedy the insufficient documentation issues were implemented prior to September 30, 2018.

Management's Responsibility for Internal Control and Compliance

Management is responsible for (1) evaluating the effectiveness of internal control over financial reporting based on criteria established under the Federal Managers' Financial Integrity Act (FMFIA), (2) providing a statement of assurance on the overall effectiveness on internal control over financial reporting, and (3) complying with other applicable laws, regulations, contracts and grant agreements.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

Auditors' Responsibilities

We are responsible for: (1) obtaining a sufficient understanding of internal control over financial reporting to plan the audit, (2) testing compliance with certain provisions of laws, regulations, contracts, and grant agreements.

We did not evaluate all internal controls relevant to operating objectives as broadly established by the FMFIA, such as those controls relevant to preparing statistical reports and ensuring efficient operations. We limited our internal control testing to testing controls over financial reporting. Because of inherent limitations in internal control, misstatements due to error or fraud, losses, or noncompliance may nevertheless occur and not be detected. We also caution that projecting our audit results to future periods is subject to risk that controls may become inadequate because of changes in conditions or that the degree of compliance with controls may deteriorate. In addition, we caution that our internal control testing may not be sufficient for other purposes.

We did not test compliance with all laws, regulations, contracts and grant agreements applicable to the Commission. We limited our tests to certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct effect on the determination of material financial statement amounts and disclosures. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. We caution that noncompliance may occur and not be detected by these tests and that such testing may not be sufficient for other purposes.

Purpose of the Report on Internal Control over Financial Reporting and on Compliance

The purpose of the Report on Internal Control over Financial Reporting and on Compliance is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the Commission's internal control or on compliance. These reports are an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Commission's internal control and compliance. Accordingly, these reports are not suitable for any other purpose.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Arlington, Virginia
November 7, 2018

Financial Statements

U.S. Consumer Product Safety Commission
Balance Sheets
As of September 30, 2018 and 2017
(in dollars)

	FY 2018	FY 2017
Assets		
Intragovernmental		
Fund Balance with the U.S. Treasury (Note 2)	$ 35,564,193	$ 39,857,992
Accounts Receivable (Note 3)	214,719	197,546
Advances to Other Federal Agency (Note 5)	1,234,277	1,147,007
Tenant Improvement Allowance (Note 6)	-	545,140
Total Intragovernmental	37,013,189	41,747,685
Accounts Receivable (Note 3)	33,746	82,570
Property and Equipment, Net (Note 4)	9,699,029	12,956,740
Other	-	443
Total Assets	$ 46,745,964	$ 54,787,438
Liabilities		
Intragovernmental		
Accounts Payable	$ 1,716,072	$ 1,457,142
Employee Benefits (Note 7)	635,072	630,085
Workers' Compensation (Note 8)	642,029	591,683
Tenant Improvement Liability (Note 10)	1,481,565	2,467,923
Custodial Liability (Note 9)	33,746	82,397
Total Intragovernmental	4,508,484	5,229,230
Accounts Payable and Others	2,776,783	1,594,607
Salaries and Benefits	2,347,513	2,396,346
Accrued Annual Leave (Note 8)	5,060,281	4,936,026
Workers' Compensation Actuarial (Note 8)	2,938,964	2,964,191
Total Liabilities	17,632,025	17,120,400
Net Position		
Unexpended Appropriations	29,518,797	35,105,855
Cumulative Results of Operations (Note 12)	(404,858)	2,561,183
Total Net Position	29,113,939	37,667,038
Total Liabilities and Net Position	$ 46,745,964	$ 54,787,438

The accompanying notes are an integral part of these statements.

U.S. Consumer Product Safety Commission
Statements of Net Cost
For the Periods ended September 30, 2018 and 2017
(in dollars)

		FY 2018	FY 2017
Net Cost By Goal			
Goal 1-	**Workforce**		
	Gross Cost	$ 8,734,541	$ 9,433,959
	Less: Earned Revenue	-	-
	Net Cost Goal 1	8,734,541	9,433,959
Goal 2-	**Prevention**		
	Gross Cost	88,872,033	86,645,835
	Less: Earned Revenue	(2,545,942)	(3,041,335)
	Net Cost Goal 2	86,326,091	83,604,500
Goal 3-	**Response**		
	Gross Cost	31,381,508	27,235,896
	Less: Earned Revenue	-	-
	Net Cost Goal 3	31,381,508	27,235,896
Goal 4-	**Communication**		
	Gross Cost	10,954,744	9,918,538
	Less: Earned Revenue	-	-
	Net Cost Goal 4	10,954,744	9,918,538
Total Net Cost of Operations (Note 15)		$ 137,396,884	$ 130,192,893

The accompanying notes are an integral part of these statements.

U.S. Consumer Product Safety Commission
Statements of Changes in Net Position
For the Periods ended September 30, 2018 and 2017
(in dollars)

	FY 2018	FY 2017
Unexpended Appropriations		
Beginning Balance	$ 35,105,855	$ 35,591,745
Budgetary Financing Sources		
Appropriations Received	126,000,000	126,000,000
Other Adjustments	(1,864,520)	(2,840,111)
Appropriations Used	(129,722,538)	(123,645,779)
Total Budgetary Financing Sources	(5,587,058)	(485,890)
Total Unexpended Appropriations	29,518,797	35,105,855
Cumulative Results of Operations		
Beginning Balances	$ 2,561,183	$ 5,721,845
Budgetary Financing sources		
Appropriations Used	129,722,538	123,645,779
Other Financing Sources (Non-Exchange)		
Imputed Financing (Note 7)	4,708,305	3,386,452
Total Financing Sources	134,430,843	127,032,231
Net Cost of Operations	(137,396,884)	(130,192,893)
Net Change	(2,966,041)	(3,160,662)
Cumulative Results of Operations	(404,858)	2,561,183
Net Position	$ 29,113,939	$ 37,667,038

The accompanying notes are an integral part of these statements.

U.S. Consumer Product Safety Commission
Statements of Budgetary Resources
For the Periods ended September 30, 2018 and 2017
(in dollars)

	FY 2018	FY 2017
Budgetary Resources		
Unobligated balance from prior year budget authority, net	$ 5,461,467	$ 6,302,371
Appropriations	126,000,000	126,000,000
Spending authority from offsetting collections	2,919,555	3,039,652
Total Budgetary Resources (Note 13)	134,381,022	135,342,023
Memorandum (non-add) Entries:		
Net Adjustments to unobligated balances brought forward, October 1 (Note 13)	(1,158,539)	(1,261,853)
Status of Budgetary Resources		
New Obligations and Upward Adjustments (Note 13)	129,130,312	128,722,017
Unobligated balance, end of year:		
Apportioned, unexpired	1,657,695	1,591,529
Unapportioned, unexpired	18,953	18,953
Expired Unobligated Balance, end of year	3,574,062	5,009,524
Total unobligated balance, end of year	5,250,710	6,620,006
Total Status of Budgetary Resources	134,381,022	135,342,023
Outlays, Net		
Outlays, net	128,429,278	125,533,085
Distributed offsetting receipts	(11,633)	(6,981)
Agency Outlays, net	$ 128,417,645	$ 125,526,104

The accompanying notes are an integral part of these statements.

U.S. Consumer Product Safety Commission
Statements of Custodial Activity
For the Periods ended September 30, 2018 and 2017
(in dollars)

	FY2018	FY 2017
Revenue Activity:		
Sources of Cash Collections:		
Miscellaneous:		
Civil Penalties & Fines	$ 27,299,100	$ 29,549,100
FOIA and Miscellaneous	11,633	6,981
Total Cash Collections	27,310,733	29,556,081
Accrual Adjustments	(48,651)	(3,949,192)
Total Custodial Revenue	27,262,082	25,606,889
Disposition of Collections:		
Transferred to Others:		
Treasury General Fund	27,310,733	29,556,081
Amounts Yet to be Transferred	(48,651)	(3,949,192)
Total Disposition of Collections	27,262,082	25,606,889
Net Custodial Activity	$ -	$ -

The accompanying notes are an integral part of these statements.

Notes to the Financial Statements

Note 1 – Summary of Significant Accounting Policies

Reporting Entity

The accompanying financial statements present the financial position, net cost of operations, changes in net position, budgetary resources, and custodial activities of the U.S. Consumer Product Safety Commission (CPSC), an independent federal regulatory agency with a mission to save lives and keep families safe by reducing the risk of injuries and deaths associated with consumer products. The CPSC was created in 1972 by Congress under the Consumer Product Safety Act and began operating in 1973. The agency is headed by five Commissioners nominated by the President and confirmed by the Senate for staggered seven-year terms. The President designates one of the Commissioners as Chairman who is the agency head. The Consumer Product Safety Act (as amended) authorizes the CPSC to:

- Develop voluntary standards
- Issue and enforce mandatory standards
- Obtain recall of products or arrange for their repair
- Conduct research on potential product hazards
- Inform and educate consumers
- Respond to industry and consumer inquiries

Fund Accounting Structure

The CPSC's financial activities are accounted for by federal account symbol. They include the accounts for appropriated funds and other fund groups described below for which the CPSC maintains financial records.

General Funds: These funds consist of salaries and expense appropriation accounts used to fund agency operations and capital expenditures.

Miscellaneous Receipt Accounts: The CPSC collects civil penalties, FOIA fees and other miscellaneous receipts, which by law are not retained by the CPSC. The U.S. Treasury automatically transfers all cash balances in these receipt accounts to the general fund of the U.S. Treasury at the end of each fiscal year.

Gifts and Donations Receipt Account: U.S.C. Title 15, Chapter 47, section 2076, paragraph (b) (6), authorizes the CPSC "to accept gifts and voluntary and uncompensated services." The CPSC occasionally receives donations from non-government sources in support of the agency's mission.

Budget Authority

Congress enacts appropriations that provide the CPSC with authority to obligate funds for necessary expenses to carry out authorized program activities. The funds appropriated are subject to OMB apportionment. The CPSC's Administrative Control of Funds directive complies with federal budgetary accounting guidelines of OMB Circular No. A-11, *Preparation, Submission and Execution of the Budget*, Revised (June 2018). This directive places internal restrictions on the apportioned funds by designating the amount, use, and authorized party of any division of the apportioned funds. These restrictions – known as allotments, sub-allotments, and allowances – limit the amounts available so obligations will not exceed the appropriated or apportioned amounts.

Basis of Accounting and Presentation

The financial statements have been prepared on the accrual basis and the budgetary basis of accounting in conformity with the GAAP for the federal government. Accordingly, revenues are recognized when earned and expenses are recognized when incurred, without regard to the receipt or payment of cash. These principles differ from budgetary reporting principles. The differences relate primarily to the capitalization and depreciation of property and equipment, as well as the recognition of other long-term assets and liabilities. The statements were also prepared in conformity with OMB Circular No. A-136, *Financial Reporting Requirements*, as amended.

Assets

Intra-governmental assets are those assets that arise from transactions with other federal entities. Funds with the U.S. Treasury comprise the majority of intra-governmental assets on the CPSC's balance sheet.

Fund Balances with Treasury

The U.S. Department of Treasury (U.S. Treasury) collects and disburses cash on behalf of CPSC. Fund Balances with Treasury consist of appropriated funds and general fund receipt accounts. Appropriated funds are available to pay current liabilities and authorized purchase commitments. General fund receipt accounts are used to record collections made by the CPSC. The U.S. Treasury automatically transfers all cash balances in these receipt accounts to the general fund of the U.S. Treasury at year-end. The CPSC's Fund Balance with U.S. Treasury is carried forward until such time as goods or services are received and payment is made, or until the funds are returned to the U.S. Treasury.

The CPSC's cash receipts and disbursements are processed by the U.S. Treasury. Funds with the U.S. Treasury represent obligated and unobligated balances available to finance allowable expenditures and restricted balances, including amounts related to expired authority and amounts not available for use by the CPSC.

Accounts Receivable and Allowance for Uncollectible Accounts

The CPSC's accounts receivable are classified into two types of accounts. Entity accounts receivables include amounts due from customers for reimbursable agreement, overpayment to vendors and current and former employees. Non-entity accounts receivable are civil monetary penalties resulting from the CPSC's enforcement actions, and for fees billed to fulfill FOIA requests. The CPSC holds these non-entity receivables in a custodial capacity. The CPSC calculates the allowance for uncollectible accounts using an analysis of historical collection data. No allowance for uncollectible amounts or related provisions for estimated losses has been established, as these amounts are fully collectible based on historical experience.

Property and Equipment

Property and equipment consists of equipment, software, furniture, fixtures, other equipment, and leasehold improvements.

Beginning August 2014, equipment and software with a useful life of two or more years are capitalized when the acquisition value is greater than $5,000 and $15,000 respectively. Furniture and fixtures, bulk internal use software purchases, other equipment, and leasehold improvements with an aggregate acquisition cost of $100,000 and a useful life of two or more years are capitalized. The CPSC reports property and equipment purchases and additions at historical costs. The CPSC treats property and equipment acquisitions that do not meet the capitalization criteria as an expense.

The CPSC depreciates property and equipment using the straight-line method of depreciation. Leasehold improvements are amortized over the lesser of the leasehold improvement's useful life or the lease term. The CPSC removes property and equipment from its asset account in the period of disposal, retirement, or removal from service. The CPSC recognizes the difference between the book value and any proceeds as a gain or loss in the period that the asset is removed.

Liabilities

Liabilities represent amounts that are likely to be paid by the CPSC as a result of transactions that have already occurred.

Accounts Payable

Accounts Payable consists of amounts owed by the CPSC to federal agencies and commercial vendors for goods and services received.

Federal Employees Benefits

Liabilities Covered by Budgetary Resources represents liabilities funded by available budgetary resources, which include appropriated funds and reimbursable authority. These liabilities consist of the salaries and wages of the CPSC's employees and the corresponding agency share for the pension, health and life insurance for employees receiving these benefits.

Accrued Annual Leave

A liability for annual leave is accrued as leave is earned and paid when leave is taken. At year-end, the balance in the accrued annual leave account is adjusted to reflect the liability at current pay rates and for leave balances. Sick leave and other types of leave are treated as an expense when the leave is used by the employee.

Employee Health Benefits and Life Insurance

The CPSC employees are eligible to participate in the contributory Federal Employees Health Benefit Program (FEHBP) and the Federal Employees Group Life Insurance Program (FEGLIP). The CPSC makes contributions in addition to the employee contributions to each program to pay for current benefits.

Federal Employees' Compensation Act (FECA)

The CPSC records an estimated liability for future worker's compensation claims based on data provided from the Department of Labor (DOL). The CPSC uses the DOL provided data to estimate a FECA actuarial liability that is recorded at year-end. DOL provides CPSC with the actual claim amounts already paid out by DOL for employees.

Contingencies

The CPSC has claims and lawsuits pending against the agency. The CPSC's policy is to include provision in the financial statements for any losses considered probable and estimable. Management believes that losses from certain other claims and lawsuits are reasonably possible but are not material to the fair presentation of the CPSC's financial statements, and provisions for these losses are not included in the financial statements.

Estimates and Assumptions

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.

Note 2 – Fund Balance with Treasury

CPSC's funds with the U.S. Treasury consist of apportioned and unapportioned funds. The status of these funds as of September 30, 2018 and September 30, 2017 is:

	2018	2017
Unobligated Balance		
Available	$ 1,657,694	$ 1,591,529
Unavailable	3,593,015	5,028,477
Obligated Balance, Not Yet Disbursed	30,313,484	33,237,986
Total Funds with U.S. Treasury	$ 35,564,193	$ 39,857,992

The obligated balance includes accounts payable and undelivered orders, which have reduced unexpended appropriations but do not decrease the cash balance on hand until outlaid.

Note 3 – Accounts Receivable

The CPSC's accounts receivable is comprised of entity and non-entity accounts. The entity receivables include amounts due from other agencies for goods and services provided and amounts due from current and former employees. The non-entity receivables include Civil Fines and Penalties and FOIA activities. No allowance for uncollectible amounts or related provision for estimated losses has been established for the CPSC's accounts receivable, as these amounts are fully collectible based on historical experience. The composition of accounts receivable as of September 30, 2018 and September 30, 2017 is:

Accounts Receivable	2018	2017
Entity		
Intra-governmental		
Accounts Receivable - Reimbursable	$ 214,719	$ 197,546
Non-Entity		
Public		
Civil Fines and Penalties	31,435	77,933
Other Receivable	2,311	4,637
Total Non-Entity Accounts Receivable	33,746	82,570
Total Accounts Receivable	$ 248,465	$ 280,116

Note 4 – Property, Plant, and Equipment, Net

The composition of property, plant, and equipment (PPE) as of September 30, 2018 is:

Classes of PPE	Acquisition Cost	Accumulated Depreciation	Net Book Value	Service Life in Years
Leasehold Improvement	$ 23,058,975	$ 19,598,781	$ 3,460,193	6-14
Equipment	20,399,460	15,375,478	5,023,982	5-12
Furniture, Fixture & Other Equipment	2,608,689	2,584,917	23,772	3-5
ADP Software	2,502,966	1,709,492	793,474	5
Construction in Progress	397,607	-	397,607	
Total	$ 48,967,697	$ 39,268,668	$ 9,699,029	

The composition of PPE as of September 30, 2017 is:

Classes of PPE	Acquisition Cost	Accumulated Depreciation	Net Book Value	Service Life in Years
Leasehold Improvement	$ 23,058,975	$ 16,784,837	$ 6,274,138	6-14
Equipment	19,137,308	13,402,858	5,734,450	5-12
Furniture, Fixture & Other Equipment	2,608,689	2,513,494	95,195	3-5
ADP Software	2,039,843	1,428,301	611,542	5
Construction in Progress	241,415	-	241,415	
Total	$ 47,086,230	$ 34,129,490	$ 12,956,740	

Note 5 – Advances to Other Federal Agency

The majority of advances to other federal agencies are for the service contract with National Institute of Standards and Technology (NIST) in support of the CPSC's work with the National Nanotechnology Initiative (NNI). Other advances are for the CPSC's shared services contracts with federal agencies for the accounting operations, payroll and employee transit benefit.

The balance of advances to other federal agencies as of September 30, 2018 and September 30, 2017 is $1,234,277 and $1,147,007, respectively.

Note 6 – Tenant Improvement Allowance (TIA)

The TIA is the amount available for the CPSC to spend on customization of leased properties. The TIA is for the lease contracts with the General Services Administration for the CPSC's Headquarters (HQ) offices located in Bethesda, Maryland and the sample storage facility (SSF) located in Gaithersburg, Maryland. The TIA is reduced upon completion of the work order on the leased property and the amount is capitalized as a leasehold improvement. The composition of the TIA as of September 30, 2018 and September 30, 2017 is:

	2018	2017
Intra-governmental		
Tenant Improvement Allowance - HQ	$ -	$ 514,625
Tenant Improvement Allowance - SSF	-	30,515
Total TIA	$ -	$ 545,140

Note 7 – Federal Employee Benefits

Federal Employee benefits consist of the actuarial portion of future benefits earned by federal employees, but not yet due and payable. These costs include pensions, other retirement benefits, and other post-employment benefits. These benefits are administered by the Office of Personnel Management (OPM) and not the CPSC. Since the CPSC does not administer the benefit plans, the CPSC does not recognize any liability on the Balance Sheet for pensions and other retirement benefits. The CPSC does, however, recognize the imputed financing sources/costs related to these benefits on the Net Cost of Operations, and the Statement of Changes in Net Position.

The federal employee retirement benefit costs paid by OPM and imputed to CPSC for the period ended September 30, 2018 and September 30, 2017 is:

	2018	2017
Estimated future pension costs (CSRS/FERS)	$ 1,641,341	$ 970,252
Estimated future postretirement health insurance (FEHB)	3,055,695	2,405,148
Estimated future postretirement life insurance (FEGLI)	11,269	11,052
Total Imputed Costs	$ 4,708,305	$ 3,386,452

The CPSC's employees participate in either the Civil Service Retirement System (CSRS) or the Federal Employees' Retirement System (FERS), depending on when they started working for the federal government. FERS and Social Security cover most employees hired after December 31, 1983. Employees who are rehired after a break in service of more than one year and who had five years of federal civilian service prior to 1987 are eligible to participate in the CSRS offset retirement system or may elect to join FERS.

For employees participating in CSRS, CPSC contributes seven percent to their plan. FERS is a three-tiered retirement system consisting of a Basic Benefit Plan, Thrift Savings Plan (TSP), and Social Security Benefits. For the FERS Basic Benefit Plan, CPSC contributes between 11.9 percent and 13.7 percent for regular employees.

The TSP under FERS is a savings plan in which CPSC automatically contributes one percent of base pay and match any employee contributions up to an additional four percent of base pay. For most employees hired after December 31, 1983, CPSC also contributes the employer's matching share for Social Security. The CPSC's contributions are recognized as current operating expenses.

CSRS, FERS, FICA, FEHB, and FEGLI contributions and are shown on the balance sheets as an employee benefits liability. Amounts owed to OPM and Treasury as of September 30, 2018 and September 30, 2017, were $635,072 and $630,085, respectively.

Note 8 – Liabilities Not Covered by Budgetary Resources

The liabilities on the CPSC's balance sheet as of September 30, 2018 and September 30, 2017 include liabilities not covered by budgetary resources. The intra-governmental liabilities are owed to DOL for the Federal Employee's Compensation Act (disability) payments and the General Services Administration (GSA) for the TIA provided as a part of the long-term lease on office facilities. The CPSC also recognizes liabilities for employee annual leave earned but not yet taken and for workers' compensation actuarial liability. CPSC also collects on receivables that are withdrawn to Treasury with no budgetary resource associated. The composition of the liabilities not covered by budgetary resources as of September 30, 2018 and September 30, 2017 is:

Liabilities Not Covered by Budgetary Resources	2018	2017
Intra-governmental		
Worker's Compensation	$ 642,029	$ 591,683
Tenant Improvement Liability	1,481,565	2,467,923
Total Intra-governmental	2,123,595	3,059,606
Accrued Annual Leave	5,060,281	4,936,026
Worker's Compensation Actuarial	2,938,964	2,964,191
Total Liabilities Not Covered by Budgetary Resources	$ 10,122,840	$ 10,959,823
Total Liabilities Covered by Budgetary Resources	7,475,439	6,078,180
Total Liabilities Not Requiring Budgetary Resources (see Note 9)	33,746	82,397
Total Liabilities	$ 17,632,025	$ 17,120,400

Note 9 – Custodial Liability

The CPSC has authority to levy fines and penalties against manufacturers, retailers or distributors who violate the Consumer Product Safety Act (as amended), Federal Hazardous Substance Act, and the Flammable Fabrics Act. Civil penalty collections are deposited in the U.S. Treasury and are not available for the CPSC to use. The CPSC charges a fee for the processing of FOIA requests. FOIA fees are also deposited in the U.S. Treasury and are not available for the CPSC to use. The uncollected civil penalties, FOIA fees and balances in the U.S. Treasury's miscellaneous receipt funds are recognized as a Custodial Liability on the CPSC's Balance Sheet. As of September 30, 2018 and September 30, 2017, the total Custodial Liabilities are $33,746 and $82,397 respectively. The revenue and collection activities are presented in the Statement of Custodial Activities.

Note 10 – Tenant Improvement Liability (TIL)

The composition of TIL as of September 30, 2018 and September 30, 2017 is:

Other Liabilities	2018	2017
Intra-governmental		
Tenant Improvement Liability – HQ	$ 579,525	$ 1,296,253
Tenant Improvement Liability – NPTEC	883,356	1,098,854
Tenant Improvement Liability – SSF	18,684	72,816
Total Tenant Improvement Liability	$ 1,481,565	$ 2,467,923

The unfunded intra-governmental tenant improvement liability (TIL) is payable to GSA over the life of the lease. The CPSC's lease agreements with the GSA are for three facilities in Maryland; the Headquarters (HQ) offices located in Bethesda, the National Product Testing and Evaluation Center (NPTEC) located in Rockville, and the sample storage facility (SSF) located in Gaithersburg. The three leases provided an allowance for customization of the properties. The TIL is amortized over the life of the lease. The TIL is reduced when the amortized amount is billed by GSA and paid by the CPSC.

Note 11 – Operating Leases

The CPSC's lease agreements with the GSA are for three facilities in Maryland; the Headquarters (HQ) offices located in Bethesda, the National Product Testing and Evaluation Center (NPTEC) located in Rockville, and the sample storage facility (SSF) located in Gaithersburg. These operating lease agreements expire between fiscal years 2019 and 2023. Lease costs for the period ended September 30, 2018 and September 30, 2017 amounted to approximately $6,947,583 and $7,135,441 respectively. Estimated future minimum lease payments for the three facilities are:

Fiscal Year	Estimated Future Lease Payments
2019	$ 7,605,167
2020	5,772,439
2021	4,846,432
2022	4,898,434
2023	4,256,646
Total Estimated Future Lease Payments	$ 27,379,118

Note 12 – Cumulative Results of Operations

The cumulative results of operations represent the excess of financing sources over expenses since inception. Details of the components of the CPSC's cumulative results of operations for the fiscal year ending September 30, 2018 and September 30, 2017 is:

	2018	2017
Investment in leasehold improvements, net	$ 3,460,193	$ 6,274,138
Investment in property and equipment, net	6,238,835	6,682,602

Tenant improvement allowance	-	545,140
Gift fund	18,953	18,953
Other Assets	-	173
Liabilities not covered by budgetary resources	(10,122,839)	(10,959,823)
Cumulative results of operations	$ (404,858)	$ 2,561,183

The CPSC does not hold title to the leased property where the leasehold improvements were made. Upon termination of the lease agreement, the total amount of leasehold improvements and TIA will be charged to operations and will reduce the balance of cumulative results of operations. See Note 8 for the composition of liabilities not covered by budgetary resources.

Note 13 – Budgetary Resources

Budgetary resources available to CPSC in fiscal year 2018 include current year appropriations in the amount of $126,000,000, of which $1,100,000, is to implement the Virginia Graeme Baker Pool and Spa Safety Act (VGB Act) grant program as provided by section 1405 of Pub. L. No. 110-140 (15 U.S.C. 8004). Also, $1,518,464 of the $5,461,467 unobligated balance from prior year budget authority is available to implement the VGB Act grant program for a total available for the VGB Act grant program of $2,618,464.

Spending authority from offsetting collections are reimbursable revenue earned for goods and services that the CPSC provides to other agencies and the public. CPSC had $2,919,555 and $3,039,652 in spending authority as of September 30, 2018 and September 30, 2017, respectively. The CPSC recognizes reimbursable work agreement revenue when earned, (*i.e.*, goods have been delivered or services rendered). The relationships with the Centers for Disease Control and Prevention, National Institute for Occupational Safety and Health, and National Highway Traffic Safety Administration represent the majority of these agreements that fund national injury data collection and estimation.

The net adjustments to unobligated balances brought forward line is an update to the SBR via OMB Circular No. A-136, revised July 30, 2018. This balance represents recoveries unpaid and paid, and balances withdrawn to Treasury in the amounts of $1,158,539 and $1,261,853 as of September 30, 2018 and September 2017, respectively.

The status of budgetary resources is comprised of new obligations and upward adjustments for obligations incurred of $129,130,312 and unobligated balances as of September 30, 2018 of $5,250,709. The unobligated balances as of September 30, 2018 are comprised of apportioned, unexpired funds; unapportioned, unexpired funds; and expired unobligated balances. The unobligated balance, apportioned consists of unexpired VGB Act grant funds in the amount of $1,531,049, and fiscal year 2018 unobligated appropriations of $126,645 for a total of $1,657,695. The unobligated balance, unapportioned consists of unexpired trust fund receipt account for gifts and donations of $18,953 and expired unobligated balances of $3,574,062 from the prior years.

A comparison of the CPSC's fiscal year 2017 SBR with the corresponding information presented in the fiscal year 2019 President's Budget is:

	Budgetary Resources	Obligations Incurred
Fiscal Year 2017 Statement of Budgetary Resources	$ 135,342,023	$ 128,722,017
Unobligated balances, beginning of year - (fund activity on expired accounts)	(7,564,224)	
Recovery of prior year unpaid obligations	(1,555,642)	

Obligations incurred - expired years		(571,045)
Permanently not available - (fund activity on expired accounts)	2,840,111	
Other - rounding in President's Budget	937,732	(150,972)
2019 Presidents Budget - Fiscal Year 2017, actual	$ 130,000,000	$ 128,000,000

The fiscal year 2020 President's Budget will not be published prior to February 2019. Accordingly, a comparison between the fiscal year 2018 data reflected on the SBR and fiscal year 2018 data in the President's Budget cannot be performed. The Budget with the actual amount for FY 2018 will be available at a later date at https://www.whitehouse.gov/omb/budget.

CPSC's apportionments fall under three Categories: Direct Category A, quarterly apportionment for salaries and expenses; Direct Category B, restricted and activity apportionment for the VGB Act grant program; and Reimbursable Category B, restricted and activity apportionment for reimbursable activities. Apportionment categories of obligations incurred for the fiscal years ending September 30, 2018 and September 30, 2017 are:

	2018	2017
Direct:		
Category A	$ 125,073,530	$ 125,632,995
Category B	1,087,415	-
Reimbursable:		
Category A	$ -	$ -
Category B	2,969,367	3,089,022
Total Obligations incurred	$ 129,130,312	$ 128,722,017

Note 14 – Undelivered Orders

The amount of budgetary resources obligated for orders undelivered as of September 30, 2018 and September 30, 2017 are:

	2018	2017
Intragovernmental, Undelivered Orders Unpaid	$ 6,034,389	$ 7,144,216
Public, Undelivered Orders Unpaid	19,916,519	22,737,667
Intragovernmental, Undelivered Orders Paid	$ 1,234,021	1,147,007
Public, Undelivered Orders Paid	-	443
Total Undelivered Orders	$ 27,184,929	$ 31,029,333

Note 15 – Reconciliation of Net Cost of Operations to Budget

Details of the relationship between budgetary resources obligated and the net cost of operations for the fiscal years ending September 30, 2018 and September 30, 2017 are:

	2018	2017
RESOURCES USED TO FINANCE ACTIVITIES		
Budgetary Resources Obligated:		
Obligations Incurred	$ 129,130,312	$ 128,722,017
Less: Spending Authority from Offsetting Collections and Recoveries	3,637,168	4,617,910
Net Obligations	125,493,144	124,104,107
Imputed Financing from Cost Absorbed by Others	4,708,305	3,386,452
Total Resources Used to Finance Activities	**130,201,449**	**127,490,559**
RESOURCES USED TO FINANCE ITEMS NOT PART OF THE NET COST OF OPERATIONS		
Change in Budgetary Resources Obligated for Goods, Services and Benefits Ordered but not yet Provided	3,844,148	(381,953)
Budgetary Offsetting Collections that do not Affect Net Cost of Operations	373,613	(76,376)
Resources that Finance the Acquisition of Assets Capitalized	(2,426,606)	(1,870,179)
Net Decrease in Other Liability – Tenant Improvement Allowance	(441,218)	(468,616)
Net Decrease in Receivables not Generating Resources until Collected	214,545	(174)
Other resources or adjustments to net obligated resources that do not affect net cost of operations	-	6,000
Total Resources Used to Finance Items not Part of the Net Cost of Operations	**1,564,482**	**(2,791,298)**
COMPONENTS OF NET COST OF OPERATIONS THAT WILL NOT REQUIRE OR GENERATE RESOURCES IN THE CURRENT PERIOD		
Components Requiring or Generating Resources in Future Periods:		
Costs that will be Funded by Resources in Future Periods	124,337	118,935
Change in Unfunded FECA Liability	(335,852)	(185,502)
Total Components of Net Cost of Operations That Will Require or Generate Resources in Future Periods	(211,515)	(66,567)

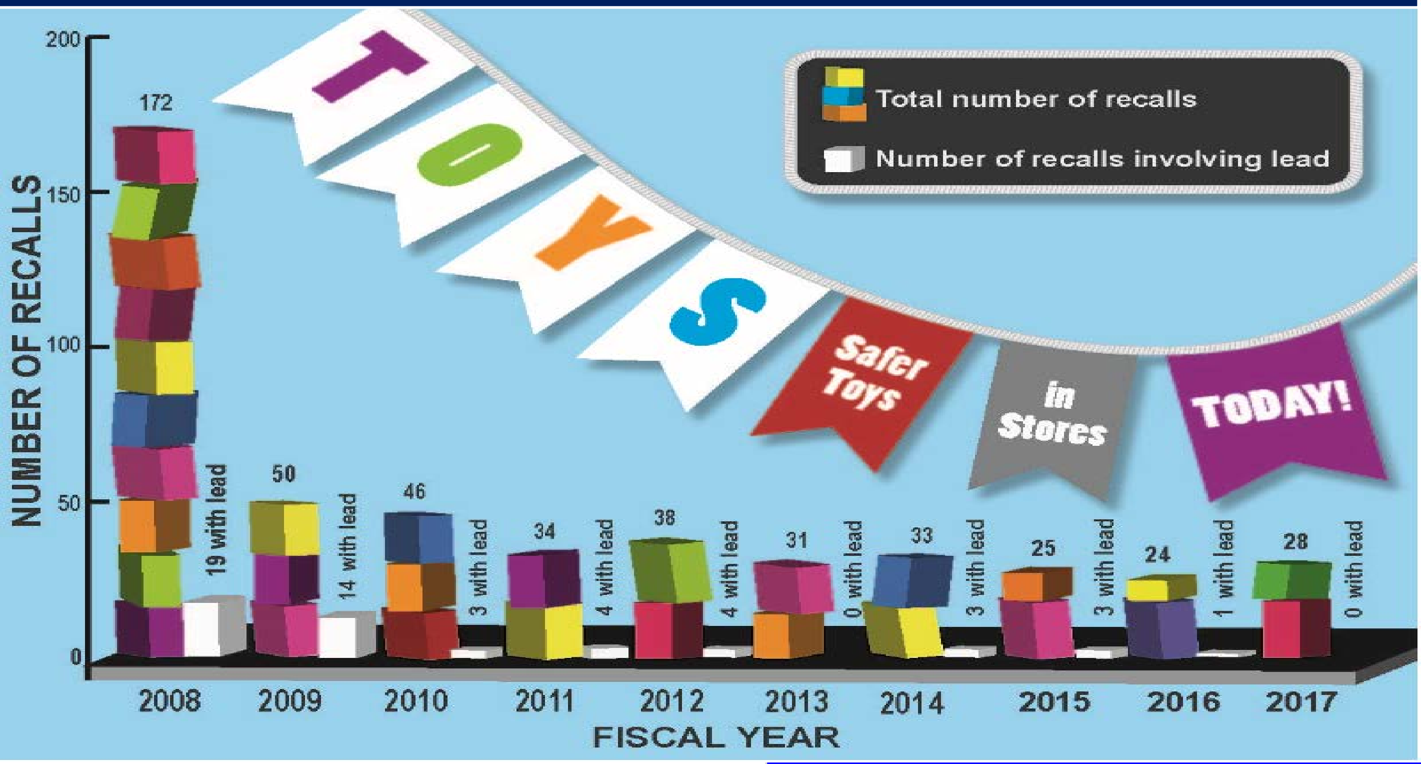
Components not Requiring or Generating Resources in the Current Period		
Depreciation and Amortization	5,826,980	5,555,834
Revaluation of assets or Liabilities	15,488	4,365
Total Components of Net Cost of Operations That Will Not Require or Generate Resources	5,842,468	5,560,199
Will Not Require or Generate Resources in the Current Period	**5,630,953**	**5,493,632**
Net Cost (Income) from Operations	**$ 137,396,884**	**$ 130,192,893**

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

U.S. Consumer Product Safety Commission
Combining Statements of Budgetary Resources by Fund
For the Period Ended September 30, 2018 and 2017
(in dollars)

	Salaries and Expenses and Other Funds	Gift Fund	Total
Budgetary Resources			
Unobligated balance from prior year budget authority, net	$ 5,442,514	$ 18,953	$ 5,461,467
Appropriations	126,000,000	-	126,000,000
Spending authority from offsetting collections	2,919,555	-	2,919,555
Total Budgetary Resources (Note 13)	134,362,069	18,953	134,381,022
Memorandum (non-add) Entries:			
Net Adjustments to unobligated balances brought forward, October 1	(1,158,539)	-	(1,158,539)
Status of Budgetary Resources			
New Obligations and Upward Adjustments (Note 13)	129,130,312	-	129,130,312
Unobligated balance, end of year:			
Apportioned, unexpired	1,657,695	-	1,657,695
Unapportioned, unexpired	3,574,062	18,953	3,593,015
Total unobligated balance, end of year	5,231,757	18,953	5,250,710
Total Status of Budgetary Resources	134,362,069	18,953	134,381,022
Outlay, Net			
Outlays, net	128,429,278	-	128,429,278
Distributed offsetting receipts	(11,633)	-	(11,633)
Agency Outlays, net	$128,417,645	$ -	$ 128,417,645

OTHER INFORMATION



This section of the AFR provides supplementary information on the CPSC's financial and program management. The section includes:

- Inspector General's Management Challenges Report
- The Summary of Financial Statement Audit and Management Assurances
- Improper Payments Elimination and Recovery Act Report (IPERA)
- Fraud Reduction Report
- Reduce the Footprint
- Grants Oversight and New Efficiency (GONE) Act

INSPECTOR GENERAL'S MANAGEMENT CHALLENGES REPORT

Office of Inspector General
U.S. Consumer Product Safety Commission

October 12, 2018

TO: Ann Marie Buerkle, Acting Chairman
Robert S. Adler, Commissioner
Elliot F. Kaye, Commissioner
Dana Baiocco, Commissioner
Peter A. Feldman, Commissioner

FROM: Christopher W. Dentel, Inspector General

SUBJECT: Top Management and Performance Challenges for Fiscal Year 2019

In accordance with the Reports Consolidation Act of 2000, I am providing you information on what I consider to be the most serious management and performance challenges facing the U.S. Consumer Product Safety Commission for fiscal year 2019. Congress left the determination and threshold of what constitutes a most serious management and performance challenge to the discretion of the Inspector General. Serious management and performance challenges are defined as mission critical areas or programs that have the potential to be a significant weakness or vulnerability that would seriously impact agency operations or strategic goals if not addressed by management.

Please feel free to contact me if you or your staff has any questions or concerns.

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Introduction

The fiscal year (FY) 2019 management and performance challenges directly relate to the Consumer Product Safety Commission's (CPSC) mission of "Keeping Consumers Safe" and address both the strategic goals and cross-cutting priorities which support the CPSC's mission. Our work in these areas indicates that while improvements are needed, the CPSC is making progress toward implementing Office of Inspector General (OIG) recommendations and improving the efficiency and effectiveness of its programs. The FY 2019 management and performance challenges are:

1. Internal Control System
2. Enterprise Risk Management
3. Resource Uncertainty
4. Information Technology Security

These four topics represent what the Inspector General considers to be the most important and continuing challenges to agency operations. Some are likely to remain challenges from year to year, while others may be removed from the list as progress is made toward resolution. Challenges do not necessarily equate to problems; rather, they should be considered areas of continuing focus for CPSC management and staff.

These challenges center on a theme of change and how uncertainty impacts CPSC operations. Change brings both challenges and opportunities. The challenges we identified speak to both the foundation of agency operations – internal controls - as well the ability of the CPSC to manage risk and respond to changes in resources and information technology security concerns.

Attached is a brief discussion of each management and performance challenge along with examples of management's efforts to address each, as well as summaries of the OIG's completed and planned work related to this assessment of the CPSC's management and performance challenges.

1. Internal Control System

An agency's internal control system is a process used by management to help the agency achieve its objectives. A strong internal control system provides stakeholders with reasonable assurance that operations are effective and efficient, the agency uses reliable information in decision-making, and the agency is compliant with applicable laws and regulations.

Federal standards for internal control are established in Office of Management and Budget's (OMB) Circular A-123 (A-123), Management's Responsibility for Enterprise Risk Management and Internal Control.[1] In 2016, A-123 was updated to reflect the most recent edition of Government Accountability Office (GAO), Standards for Internal Control in the Federal Government[2] (Green Book), and the internal control requirements of the Federal Manager's Financial Integrity Act (FMFIA).

The Green Book provides managers criteria for designing, implementing, and operating an effective internal control system. The Green Book defines controls and explains how components and principles are integral to an agency's internal control system.

The CPSC reports its overall compliance with the requirements of A-123 and FMFIA through the Chairman's Statement of Assurance published annually in the Agency Financial Report. As of FY 2017, the Chairman asserted that the CPSC had effective internal controls over all programs and complied with applicable laws and regulations.

The CPSC has made progress in resolving internal control findings from this office, and has implemented a number of significant recommendations from earlier audits. The OIG acknowledges management's work to:

- reassign responsibility for managing the agency's directives program to the Office of General Counsel
- quickly correct the problems that led to the Improper Payments and Elimination and Recovery Act (IPERA) violations[3]
- conduct comprehensive assessments of internal controls over financial management
- develop cycle memos and control matrices
- test and evaluate key controls

[1] https://www.whitehouse.gov/sites/whitehouse.gov/files/omb/memoranda/2016/m-16-17.pdf
[2] https://www.gao.gov/products/GAO-14-704G
[3] https://www.cpsc.gov/s3fs-public/Review-of-the-CPSCs-Compliance-with-IPERA-for-FY-2017.pdf?YH7HtiLHdOpyBBHwydz5pTYwGBIxzO6V

This management challenge aligns with the CPSC's cross-cutting priority, Operational Excellence, which supports all four agency strategic goals by developing a solid administrative management foundation to support effective agency operations.

Recently completed OIG work related to this CPSC cross-cutting priority includes: Evaluation of CPSC's Implementation of the Federal Information Security Modernization Act; CPSC Compliance with the Digital Accountability and Transparency Act; Audit of the Consumer Product Safety Commission's Fiscal Year's 2017 Financial Statements; Review of the CPSC's Compliance with IPERA for FY 2017; and Review of Vendor Payments in FY 2017.

The OIG is currently reviewing the CPSC's directive system. Although this office's audit of that program is not yet complete, it appears that only 28 of 165 directives had been updated within the time period specified by the CPSC's own regulations. More current directives would provide CPSC staff with better guidance for meeting the agency's mission. The OIG also plans to conduct audits or reviews of the agency's records management system and internal control implementation in FY 2019.

2. Enterprise Risk Management

CPSC management needs to integrate risk management into their existing business operations to meet changing risks and new priorities. Risk is the effect of uncertainty on agency operations. Enterprise risk management (ERM) is an effective approach to address the impact of risks on the agency's overall strategic goals and objectives. As entities strive to improve operational processes and implement new technology, management should continually evaluate its internal control system so that it meets the agency's needs and is updated as necessary.

ERM will help the CPSC to effectively respond to both expected and unexpected events. Risk management practices should be forward-looking and designed to help the organization alleviate threats and take advantage of opportunities. Management is responsible for creating a robust enterprise risk management process.

The July 15, 2016 update to A-123 emphasized the importance of having an appropriate risk assessment process. The guidance includes a requirement that agencies annually develop a risk profile which is coordinated with their strategic plan. The June 29, 2018 update to OMB Circular A-11 requires that the CPSC's risk assessment in the risk profile be discussed each year as part of the agency's strategic review and used to inform planning efforts.

We note that the CPSC uses a risk-based method in its research and inspection operations. Further, the Office of Financial Management, Planning, and Evaluation has begun work on a risk assessment process for the agency. We encourage the agency to expand its risk-based management to its support operations and help the agency allocate resources to the areas of greatest opportunities for improvement in agency programs.

This management challenge aligns with the CPSC's cross-cutting priority, Data Collection and Analysis, which supports all four agency strategic goals by focusing on the collection and use of high-quality data to shape program strategies and prioritize program activities.

The CPSC's weaknesses in applying the principles of ERM have been repeatedly noted in past FISMA reviews, including the most recent Evaluation of CPSC's Implementation of the Federal Information Security Modernization Act

The OIG will address ERM as part of its statutory audits and reviews and its planned audits or reviews of internal control implementation and enterprise architecture.

3. Resource Uncertainty

Currently the CPSC, as well as the entire federal government, is operating under the shadow of another potential government shutdown.

The CPSC spent a portion of FY 2018 operating under continuing resolutions (CR); and presently no budget has been passed for FY 2019. It is highly likely that the CPSC will operate under a CR for some portion of FY 2019. When an agency operates under a CR, staff are unclear what resources the agency will have available to meet its statutory responsibilities over the course of the entire fiscal year. Because CRs only provide funding for a limited period, they create uncertainty for agencies about both when they will receive their full appropriation and what level of funding ultimately will be available.

This budget uncertainty can result in agency management delaying hiring or contracting actions. The resulting increase in costs and decrease in agency staffing potentially reduces the level of services provided to the American people. If the CPSC is forced to operate under CRs for a prolonged time, agency management could be faced with additional challenges in executing the CPSC's final budget as they rush to spend funds in a compressed timeframe. At a minimum, agency management will be required to perform additional work to manage within CR constraints.

On March 13, 2017, the President issued Executive Order (EO) 13781: Comprehensive Plan for Reorganizing the Executive Branch, directing OMB to submit a comprehensive plan to reorganize executive branch departments and agencies. OMB issued implementing guidance via OMB Memorandum 17-22. Both the EO and Memorandum made it clear that reorganization includes long-term workforce reductions.

On May 4, 2018, the Director of the Office of Personnel Management proposed legislation which would "bring Federal benefits more in line with the private sector" by reducing them. This legislation follows the March 20, 2018, President's Management Agenda which proposed a pay freeze for civilian employees.

On May 25, 2018,the President issued three EOs, EO 13839: Promoting Accountability and Streamlining Removal Procedures Consistent With Merit System Principles; EO 13837: Ensuring Transparency, Accountability, and Efficiency in Taxpayer-Funded Union Time Use; and EO 13836: Developing Efficient, Effective, and Cost-Reducing Approaches To Federal Sector Collective Bargaining. All of these EOs have required an immediate agency response and may change the way the CPSC manages its workforce.

The questions of the "right size" for the federal government and the right compensation package for federal employees are clearly political ones. However, the threatened reduction in the size of the federal workforce and benefits has had an impact on the morale and efficiency of the workforce at the CPSC and the government as a whole.

This management challenge aligns with the CPSC's Strategic Goal 1: Cultivate the most effective consumer product safety workforce. It also supports all four agency strategic goals by addressing the cross-cutting priority of Operational Excellence, focused on enhancing financial stewardship.

Recently completed OIG work related to this CPSC goal and cross-cutting priority include: CPSC Compliance with the Digital Accountability and Transparency Act; Audit of the Consumer Product Safety Commission's Fiscal Year's 2017 Financial Statements; Review of the CPSC's Compliance with IPERA for FY 2017; Review of

Vendor Payments in FY 2017; and Audit of the Occupant Emergency Program for FY 2017.

The statutory audits and reviews related to financial statements, FISMA , and IPERA address this challenge annually. In addition to the statutorily required audits and reviews, OIG plans work related to this CPSC cross-cutting priority in the areas of grants management, the reasonable accommodation program under the Office of Equal Employment Opportunity and Minority Enterprise, and contractor onboarding.

4. Information Technology Security

In information technology (IT), there is an inherent tension between the need to provide services to meet mission-related demands and the need to meet information security requirements in a rapidly changing environment. Historically, the CPSC, along with many other government agencies, has used its resources to expand IT services rather than addressing security concerns. As this office has expressed before, and the agency also noted, the CPSC will not be able to meet current and future demands without adequate IT resources. However, this support should not come at the expense of adequate IT security. This challenge is not unique to the CPSC.

The FY 2017 FISMA evaluation found that management continued to make progress in implementing the FISMA requirements. These accomplishments include:

- allocating resources to define and document a formal organizational risk management plan
- deploying an automated solution to centrally manage the authentication of 49 percent of the CPSC's privileged network users
- establishing a target date for the implementation of the Department of Homeland Security's Continuous Diagnostics and Mitigation program to support the automation of managing software licenses
- beginning the development of a formal Enterprise Architecture based on the concepts described in the Federal Enterprise Architecture
- establishing an Executive Risk function led by the CPSC Chief Financial Officer and attended by the Chief Information Officer, the Chief Information Security Officer, and other mission executives

The IT challenges currently facing the CPSC are particularly relevant as the agency continues to deal with constantly changing and evolving threats, increasingly sophisticated attacks, and new compliance requirements.

The OIG is aware that the agency has dedicated resources and has been working to address many of the issues identified in past FISMA reviews. These efforts demonstrate management's commitment to improving the agency's IT security. However, the OIG has identified several security weaknesses in the CPSC's information security internal control policies, procedures, and practices. These conditions could result in the unauthorized modification or destruction of data, unauthorized disclosure of sensitive information, or inaccessibility of services and information required to support the mission of the CPSC.

This management challenge aligns with the CPSC's cross-cutting priority, Information Technology, which supports all four agency strategic goals by addressing the role of information technology as an integral tool to meet agency objectives.

Recently completed OIG work related to this CPSC cross-cutting priority include: Evaluation of CPSC's Implementation of the Federal Information Security Modernization Act CPSC Compliance with the Digital Accountability and Transparency Act; and Audit of the CPSC's FY 2017 Financial Statements.

In addition to the statutorily required audits and reviews, OIG plans work related to this CPSC cross-cutting priority in the areas of records management, Privacy Act implementation, enterprise architecture, and the National Electronic Injury Surveillance System (NEISS) program.

SUMMARY OF FINANCIAL STATEMENT AUDIT AND MANAGEMENT ASSURANCES

Summary of Financial Statement Audit					
Audit Opinion	Unmodified				
Restatement	No				
	Beginning Balance	**New**	**Resolved**	**Consolidated**	**Ending Balance**
Total Material Weaknesses	0	0	0	0	0

Summary of Management Assurances						
Effectiveness of Internal Control over Financial Reporting (FMFIA § 2)						
Statement of Assurance	Unmodified					
	Beginning Balance	**New**	**Resolved**	**Consolidated**	**Reassessed**	**Ending Balance**
Total Material Weaknesses	0	0	0	0	0	0
Effectiveness of Internal Control over Operations (FMFIA § 2)						
Statement of Assurance	Unmodified					
	Beginning Balance	**New**	**Resolved**	**Consolidated**	**Reassessed**	**Ending Balance**
Total Material Weaknesses	0	0	0	0	0	0
Conformance with Financial Management System Requirements (FMFIA § 4)						
Statement of Assurance	Systems conform to financial management system requirements					
	Beginning Balance	**New**	**Resolved**	**Consolidated**	**Reassessed**	**Ending Balance**
Total Nonconformance	0	0	0	0	0	0

IMPROPER PAYMENTS ELIMINATION AND RECOVERY ACT REPORTING DETAILS

To improve the integrity and accuracy of the federal government's payments, in 2002 Congress enacted the Improper Payments Information Act (IPIA) (Pub. L. No. 107-300) and Recovery Audit Act (Pub. L. No. 107-1070). In 2010, the Acts were replaced by the Improper Payments Elimination and Recovery Act of 2010 (IPERA, Pub. L. No. 111-204), which later was supplemented by the Improper Payments Elimination and Recovery Improvement Act of 2012 (IPERIA; Pub. L. No. 112-248).

IPERIA requires agencies to improve the quality of oversight for high-dollar and high-risk programs, and it mandates that agencies share data regarding recipient eligibility and payment amounts. For more detailed information on the improper payments and prior years' reporting, please visit the following link: https://paymentaccuracy.gov/.

The CPSC is dedicated to continuing to strengthen its improper payments program to ensure that payments are justifiable, and processed correctly and efficiently. The program uses an experienced and trained staff, a financial management system designed with control functions to mitigate risk, and an internal analysis of processes and transactions. The CPSC strives to comply with OMB Memorandum M-18-20, which revised Appendix C of OMB Circular No. A-123, *Requirements for Payment Integrity Improvement*.

In accordance with the President's Management Agenda, Cross-Agency Priority Goal 9, *Getting Payments Right*, the CPSC reviewed the streamlined payment reporting guidance for FY 2018 to identify improper payments and differentiate between improper payments resulting from payment processing errors where there was no monetary loss to the taxpayer versus improper payments that resulted in a monetary loss to the taxpayer requiring payment recapture. The analysis did not evidence significant improper payments resulting in monetary loss to the taxpayer, but did identify payment processing errors that met the improper payments definition; those payment processing errors and underlying procedures have subsequently been corrected.

Review of Program Activities in FY 2018

The CPSC assesses payment reporting for two program activities: Payroll and Non-Payroll.

Payment Reporting & IPERA Noncompliance Findings

The FY 2017 IPERA review issued by the OIG in May 2018 found that the CPSC was noncompliant under three findings: (1) risk assessment process could be improved; (2) exceeded Federal Improper Payment Rate; and (3) lack of a statistically valid estimate for non-payroll activities. The CPSC implemented all of the OIG's recommendations to correct the underlying conditions. The noncompliance was for payment processing errors resulting from insufficient documentation (*i.e.*, invoice approval delegations). There was no monetary loss to the taxpayer.

An OIG audit pertaining to vendor payment processes was also issued in May 2018, finding insufficient documentation in the agency's receipt and acceptance process. The CPSC implemented all of the OIG's recommendations to remedy the insufficient documentation issues prior to September 30, 2018. The CPSC had already exceeded the improper payment rate for the FY 2018 before the corrective actions were fully implemented (see Table 1 for details). Accordingly, the agency is reporting these FY 2018 payments as improper based on the insufficient documentation. The OIG will conduct an IPERA compliance review in FY 2019 that will include a compliance determination for FY 2018.

The results of the FY 2018 CPSC payments review are:

Table 1- Payment Analysis

Program / Activity	$ Proper Payments	% Proper	$ Improper Payments	% Improper	Federal Payment Made by	Type of Improper Payment	Root Cause
Payroll	$ 78,366,887	100%	$ -	0%	CPSC	N/A	N/A
Non-Payroll	$ 1,429,376	5%	$ 29,086,707	95%	CPSC	Overpayment	Administrative processing Errors- Insufficient receipt and acceptance policy
			$ 22,349	0%	CPSC	Overpayment	Administrative processing errors

<u>Recapture of Improper Payments</u>

IPERA Section III (C) requires agencies to conduct payment recapture audits (also known as recovery audits) for each program and activity that expends $1 million or more annually if conducting such audits would be cost effective. A payment recapture audit is a detective and corrective control activity designed specifically to identify and recapture overpayments. The CPSC conducted a cost benefit analysis of two alternatives for payment recapture audits, exploring the use of federal staff versus contract staff. Neither alternative was cost effective to pursue a payment recapture audit based on the root cause and nature of the improper payments. Management informed the OMB and the OIG of the analysis and decision in June 2018.

Although CPSC concluded that payment recapture audits are not cost effective, the agency identifies self-reported improper payments as noted above in the overpayment disclosure. For FY 2018, the self-reported payments are administrative payment processing errors for insufficient documentation. These administrative processing errors resulted in no loss to the taxpayer and do not require payment recapture. The other amounts were refunds on payments made in error; these amounts have been recaptured.

The CPSC will continue to collect and/or resolve improper payments through existing financial procedures, including pre-audit of travel reimbursements, internal control review activities, internal and external audits, training of the CPSC staff, and debt collection, as necessary.

<u>Do-Not-Pay Initiative</u>

The CPSC is cross-serviced by the U.S. Department of Transportation's Enterprise Service Center (ESC) for accounting system support and accounts payable processing. The implementation of the Do-Not-Pay (DNP) initiative is a joint responsibility of the CPSC and ESC.

An important part of the CPSC's program integrity efforts designed to prevent, identify, and reduce improper payments is integrating DNP Business Center into the agency's existing processes. ESC utilizes the DNP Business Center to perform online searches, screen payments against the DNP databases, and augment ESC's data analytics capabilities.

The CPSC follows established pre-enrollment, pre-award, and pre-payment processes for all acquisition and financial assistance awards. Pre-enrollment procedures include cross-referencing applicants against GSA's System for Award Management (SAM) exclusion records. The CPSC also reviews federal and commercial databases to verify past performance, federal government debt, integrity, and business ethics. As part of the pre-award process and prior to entering into an agreement, the CPSC requires recipients of financial assistance to verify the entities they transact with that are not excluded from receiving federal funds. For pre-payment processes, ESC verifies an entity against both SAM and the Internal Revenue Service's (IRS) Taxpayer Identification Number (TIN) Match Program before establishing as a vendor in the core financial accounting system.

Using the DNP Business Center helps the CPSC to improve the quality and integrity of information within the financial system. The ESC engages the DNP Analytics Services to match vendor records with the Death Master File (DMF). The review identifies high-risk vendor records possibly associated with deceased individuals and enables the ESC to classify the vendor records into risk-based categories for further evaluation. The ESC deactivates the highest-risk vendor records, thereby decreasing the likelihood of improper payments to deceased individuals.

The CPSC performs post-payment reviews to adjudicate conclusive matches identified by the DNP Business Center. The monthly process verifies payee information against internal sources, reviews databases within the DNP Business Center, and confirms whether the CPSC applied appropriate business rules when making payments. Based on the reviews from DNP and SAM exclusions from October 1, 2017 through September 30, 2018, no errant payments were identified.

FRAUD REDUCTION REPORT

The Fraud Reduction and Data Analytics Act of 2015 (FRDAA) Pub. L. No. 114-186, was signed into law on June 30, 2016. The FRDAA requires agencies to establish financial administrative controls to identify and assess fraud risks and design and implement control activities to prevent, detect, and respond to fraud, including improper payments. Agencies have three years per the law to implement FRDAA and to assess their efforts to combat fraud including improper payments and submit a report to Congress for fiscal years 2017, 2018 and 2019. Among other mandates, the legislation requires the OMB to establish guidelines for federal agencies to use the Government Accountability Office's (GAO) *A Framework for Managing Fraud Risks in Federal Programs* (GAO Framework) to implement control activities related to fraud risk management. The goal is to prevent, detect, and respond to fraud.

In FY 2017, the CPSC systematically analyzed the financial management cycles susceptible to fraud risks. Fraud risk types and attributes identified in the AGA's report, "The Fraud Prevention Toolkit," were aligned and assessed against the applicable existing internal control cycles.

In FY 2018, CPSC financial process owners used the data collected in the FY 2017 risk assessment to conduct a fraud risk assessment "heat map." Fraud risk "heat maps" are built through collaboration among people at many levels and across functions, and they represent a consensus about the financial, regulatory, and reputational impacts that specific kinds of fraud could create. Subject matter experts assessed the inherent risk of each significant financial cycle and found 36 residual risk factors. The CPSC noted each residual risk had mitigating controls in place to reduce the likelihood of fraud at an agency-wide financial process level.

Based on the risk analysis performed, CPSC financial management has efficient and effective controls in place to mitigate identified fraud risks and is making progress in implementing FRDAA. Process owners work to monitor the activity and ensure that existing controls are implemented and working properly. Management continues to review the availability of data analytics in order to strengthen the current control structure.

REDUCE THE FOOTPRINT

The CPSC is committed to the goal of minimizing the total square footage leased at its HQ offices located in Bethesda, MD, the NPTEC in Rockville, MD, and the SSF in Gaithersburg, MD. The agency had no increase in square footage related to the three leased properties from FY 2017 to FY 2018. However, there were increases in repair and maintenance costs for routine heating and cooling repairs at the Bethesda HQ, among others. The CPSC will continue to meet its responsibilities of the initiative by disposing of unneeded federal real estate, increasing the use of under-utilized assets, minimizing operating costs, and improving efficiency.

Reduce the Footprint Baseline Comparison	FY 2015 Baseline *	FY 2018 *	Change (FY 2015 Baseline - FY 2018)*
HQ	123,966	126,266	2,300
NPTEC	63,852	63,852	-
SSF	24,678	24,678	-

*in square feet

Reporting of Operations and Maintenance Costs – Leased Facilities	FY 2015 Baseline	FY 2018	Change (FY 2015 Baseline - FY 2018)
HQ	$ 159,236	$ 618,074	$ 458,838
NPTEC	$ 82,020	$ 126,269	$ 44,249
SSF	$ 31,700	$ 48,801	$ 17,101

GRANT OVERSIGHT & NEW EFFICIENCY (GONE) ACT REQUIREMENTS

The Grants Oversight and New Efficiency (GONE) Act (Pub. L. No. 114-117) was enacted on January 28, 2016. The GONE Act requires the head of each agency to submit to Congress, in coordination with the U.S. Secretary of Health and Human Services (HHS), a report on federal grant and cooperative agreement awards that have not yet been closed out for a period of performance elapsed more than two years.

The CPSC has one grant program, with five sub-awardees that received funding in FY 2016. The sub-awardees are all still within the 3-year period of performance as of September 30, 2018. The CPSC does not have current grants or cooperative agreements with period of performance ended on or before September 30, 2015.

CATEGORY	2-3 Years	➢ 3-5 Years	➢ 5 Years
Number of Grants/Cooperating Agreements with Zero Dollar Balances	0	0	0
Number of Grants/Cooperating Agreements with Undisbursed Balances	0	0	0
Total Amount of Undisbursed Balances	0	0	0

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APPENDICES

Appendix A: Performance Measurement Reporting Process

Provides a brief description of the performance reporting framework

Appendix B: Statutory Authority

Provides a listing of federal statutes administered by the CPSC

Appendix C: Acronym Listing

Defines acronyms cited in the report. Lists acronyms in alphabetical order

APPENDIX A: PERFORMANCE MEASUREMENT REPORTING PROCESS

The Annual Performance Plan, approved by a majority Commission vote in conjunction with the Budget Request to Congress, includes performance measures with annual targets used for tracking progress toward achieving the strategic goals and objectives from the agency's *2018 -2022 Strategic Plan*. Each quarter, the CPSC's component organizations are responsible for reporting actual progress for each performance measure to a centralized agency Performance Management Database (PMD). A summary of the FY 2018 performance year-end results is presented on pages 3–11 of this report and the detailed performance results will be published in the FY 2018 APR in February 2019 on the agency's website at https://www.cpsc.gov/About-CPSC/Agency-Reports/Performance-and-Budget.

Verification and Validation (V&V) of Performance Data

The CPSC requires complete, accurate, and reliable performance data to assess agency progress toward its strategic objectives and performance goals, and to make good management decisions. The CPSC's approach to verification and validation of performance data, intended to improve accuracy and reliability, is based upon the following:

1. The agency develops performance measures through its strategic planning and annual performance planning processes.
2. CPSC component organizations follow a standard reporting procedure to document detailed information for each performance measure in an internal agency database. This information includes, but is not limited to:
    - the performance measure definition
    - the rationale for the performance measure
    - the source of the data
    - the data collection and computation methods
    - data limitations
3. Agency component organizations are responsible for assessing the completeness, consistency, timeliness, and quality of the data for their key performance measures, as well as identifying any data limitations. Managers of major organizational units responsible for reporting key measures certify that procedures for ensuring performance data quality have been followed, and that the reported results are reasonably complete, accurate and reliable.
4. In addition to the self-assessments and certification statements completed by component organizations, year-end results for key performance measures are reviewed by the Office of Financial Management, Planning and Evaluation (EXFM) team and approved by management before they are published in agency documents. Furthermore, EXFM also conducts an in-depth V&V review of each key performance measure within a 2-year cycle, following established operating procedures. In FY 2018, EXFM independently assessed 15 key performance measures out of 29 from across the agency's component organizations for quality and accuracy of the year-end reported performance results.
5. The CPSC also conducts periodic Strategic Data Review (SDR) meetings, where managers of major organizational units analyze progress toward performance measure targets and broader progress toward achieving the agency's strategic objectives and performance goals. Program risks are also discussed, and mitigation strategies are developed.
6. Managers of major organizational units within the CPSC also submit annual statements of assurance on the operating effectiveness of general- and program-level internal controls for their areas of

responsibility. Those statements of assurance identify any known deficiencies or weaknesses in program-level internal controls where they exist, including any issues with the quality of program data.

These procedures help to provide assurance that performance data reported by the agency are sufficiently complete, accurate, and reliable, as appropriate to intended use, and that internal controls are maintained and functioning, as intended.


Helmet head never looked so good.
There are different helmets for different activities.
Each type of helmet is made to protect your head from injuries related to a specific sport.
Play safe. Wear a helmet.

APPENDIX B: STATUTORY AUTHORITY

Provided below is a list of federal statutes administered by the CPSC. Links to these statutes are available on the CPSC's website at: https://www.cpsc.gov/Regulations-Laws--Standards/Statutes under *Regulations, Laws & Standards.*

CGBPA	Children's Gasoline Burn Prevention Act
CNPP Act	Child Nicotine Poisoning Prevention Act of 2015
CPSA	Consumer Product Safety Act
CPSIA	Consumer Product Safety Improvement Act of 2008
CSPA	Child Safety Protection Act [amends the FHSA]
DSA	Drywall Safety Act of 2012
FFA	Flammable Fabrics Act
FHSA	Federal Hazardous Substances Act
LHAMA	Labeling of Hazardous Art Materials Act [Amends the FHSA]
PPPA	Poison Prevention Packaging Act
RSA	Refrigerator Safety Act
VGB Act	Virginia Graeme Baker Pool and Spa Safety Act

APPENDIX C: ACRONYM LISTING

AFR	Agency Financial Report
AGA	Association of Government Accountants
APR	Annual Performance Report
AR	Account Receivable
BOD	Binding Operational Directive
CAP	Corrective Action Plans
CEAR	Certificate of Excellence in Accountability Reporting
CGBPA	Children's Gasoline Burn Prevention Act
CNPP Act	Act Child Nicotine Poisoning Prevention Act of 2015
CPSA	Consumer Product Safety Act
CPSC	U.S. Consumer Product Safety Commission
CPSIA	Consumer Product Safety Improvement Act of 2008
CPSRMS	Consumer Product Safety Risk Management System
CR	Continuing Resolution
CSPA	Child Safety Protection Act
CSRS	Civil Service Retirement System
DATA Act	Digital Accountability and Transparency Act of 2014
DHS	U.S. Department of Homeland Security
DMF	Death Master File
DNP	Do Not Pay
DOI	U.S. Department of
DOL	U.S. Department of Labor
DOT	U.S. Department of Transportation
DMARC	Domain-based Message Authentication, Reporting & Conformance
DSA	Drywall Safety Act of 2012
EEI	Employee Engagement Index
ERM	Enterprise Risk Management
ESC	Enterprise Services Center
FedRAMP	Federal Risk and Authorization Management Program
FEHBP	Federal Employees Health Benefit Program
FERS	Federal Employees' Retirement System
FFA	Flammable Fabrics Act
FFMIA	Federal Financial Management Improvement Act of 1996
FEVS	Federal Employee Viewpoint Survey
FHSA	Federal Hazardous Substances Act
FICA	Federal Insurance Contributions Act
FIPS	Federal Information Processing Standards
FISMA	Federal Information Security Modernization Act
FMFIA	Federal Managers' Financial Integrity Act of 1982
FOIA	Freedom of Information Act
FPPS	Federal Personnel/Payroll System
FRDAA	The Fraud Reduction and Data Analytics Act of 2015
FTE	Full-Time Equivalent
FY	Fiscal Year
GAAP	Generally Accepted Accounting Principles
GAO	U.S. Government Accountability Office
GONE	Grant Oversight & New Efficiency Act
GPRA	Government Performance and Results Act
GSA	General Services Administration

GSS	General Support System
HCUP	Healthcare Cost and Utilization Project
HQ	Headquarters
IBC	Interior Business Center
IDP	Individual Development Plan
IPERA	Improper Payments Elimination and Recovery Act
IPERIA	Improper Payments Elimination and Recovery Improvement Act
IPIA	Improper Payments Information Act
IRM	Information Resource Management
IRS	Internal Revenue Service
IT	Information Technology
KM	Key Performance Measure
LHAMA	Labeling of Hazardous Art Materials Act
MD&A	Management Discussion & Analysis
NEISS	National Electronic Injury Surveillance System
NIST	National Institute of Technology and Standards
NNI	National Nanotechnology Initiative
NPTEC	National Product Testing and Evaluation Center
OIG	Office of the Inspector General
OPM	U.S. Office of Personnel Management
OMB	Office of Management and Budget
PMD	Performance Management Database
PPPA	Poison Prevention Packaging Act
PPE	Property, Plant, and Equipment
PRISM	Procurement Request Information System Management
RAM	Risk Assessment Methodology
RMC	Risk Management Council
RSA	Refrigerator Safety Act
RSI	Required Supplementary Information
SAM	System for Award Management
SBR	Statement of Budgetary Resources
SDR	Strategic Data Review
SoA	Statements of Assurance
SONC	Statement of Net Costs
SSAE-18	Statement on Standards for Attestation Engagements 18
SSF	Sample Storage facility
SSP	Shared Service Provider
TIA	Tenant Improvement Allowance
TIL	Tenant Improvement Liability
TIN	Taxpayer Identification Number
TSP	Thrift Savings Plan
VGB Act	Virginia Graeme Baker Pool and Spa Safety Act
VPN	Virtual Private Network

U.S. CONSUMER PRODUCT SAFETY COMMISSION
4330 East West Highway
Bethesda, MD 20814
Consumer Hotline and General Information: (800) 638-2772,
TTY (800) 638-8270
https://www.cpsc.gov