United States of America

Consumer Product Safety Commission

Agency Financial Report

Fiscal Year 2013

About the CPSC

The U.S. Consumer Product Safety Commission is an independent federal regulatory agency, created in 1972 by the Consumer Product Safety Act (CPSA). In addition to the CPSA, as amended by the Consumer Product Safety Improvement Act of 2008 (CPSIA) and Public Law 112-28, the CPSC also administers other laws, such as the Federal Hazardous Substances Act, the Flammable Fabrics Act, the Poison Prevention Packaging Act, the Refrigerator Safety Act, the Virginia Graeme Baker Pool and Spa Safety Act, and the Children's Gasoline Burn Prevention Act.

The CPSC has jurisdiction over thousands of types of consumer products used in and around the home, in recreation, and in schools, from children's toys to portable gas generators and toasters. Although the CPSC's regulatory purview is quite broad, a number of product categories fall outside the CPSC's jurisdiction.[*]

[*] 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.

TABLE OF CONTENTS

MESSAGE FROM THE ACTING CHAIRMAN

It is my pleasure to present the U.S. Consumer Product Safety Commission's (CPSC's) Agency Financial Report (AFR) for fiscal year 2013.

The CPSC is dedicated to achieving its mission of protecting the public against unreasonable risks of injury from consumer products through education, safety standard activities, regulation, and enforcement. The CPSC's 2011 – 2016 Strategic Goals are Leadership in Safety, Commitment to Prevention, Rigorous Hazard Identification, Decisive Response, and Raising Awareness. Deaths, injuries, and property damage from consumer product incidents cost the nation more than $1 trillion annually. The CPSC is committed to protecting consumers and families from products that pose a fire, electrical, chemical or mechanical hazard. The CPSC's work to help ensure the safety of consumer products - such as toys, cribs, power tools, cigarette lighters and household chemicals – has contributed to a decline in the rate of deaths and injuries associated with consumer products over the past 40 years.

More specifically, in fiscal year 2013, the CPSC published twenty-nine rulemaking-related Federal Register notices including the promulgation of nine final rules. The agency also screened more than 24,000 different imported consumer products, stopping at least six million violative or potentially hazardous products from entering commerce. In addition, the CPSC conducted approximately 370 recalls involving approximately 31 million units of consumer products, negotiated nearly $8 million in civil penalties, and collected almost 400,000 National Electronic Injury Surveillance System (NEISS) reports. More than six billion impressions of CPSC safety messages were received by consumers on TV, the radio, in print, and online in fiscal year 2013, including 640 million impressions for the CPSC's "Safe To Sleep" crib safety education program, approximately 58 million impressions for minority outreach efforts, and an estimated 695 million impressions for drain entrapment and drowning prevention in pools and spas.

Fiscal year 2013 was a productive period for the CPSC, thanks to the CPSC employees who dedicate their talents and energy to our important mission each day. The CPSC places a strong emphasis on being an effective steward of its financial resources. I am pleased to provide an assurance that the CPSC's financial and performance data in this report are reliable and complete. The CPSC's auditor issued an unqualified opinion on our fiscal year 2013 financial statements. The auditor did note a material weakness in internal control in financial reporting related to policies and procedures for identifying and recording leasehold improvements. The recording errors have been corrected and are properly reflected in the financial statements, and the financial management team will work to improve the related internal controls. This year, the CPSC has chosen to produce an Agency Financial Report and an Annual Performance Report (APR) instead of a consolidated Performance and Accountability Report (PAR). This AFR includes a brief overview of performance information. The FY 2013 Annual Performance Report, which will provide a more comprehensive account of performance, will be submitted with the Congressional Budget Justification, and is expected to be posted on the agency's website at http://www.cpsc.gov/performance-and-budget in February 2014.

Robert S. Adler

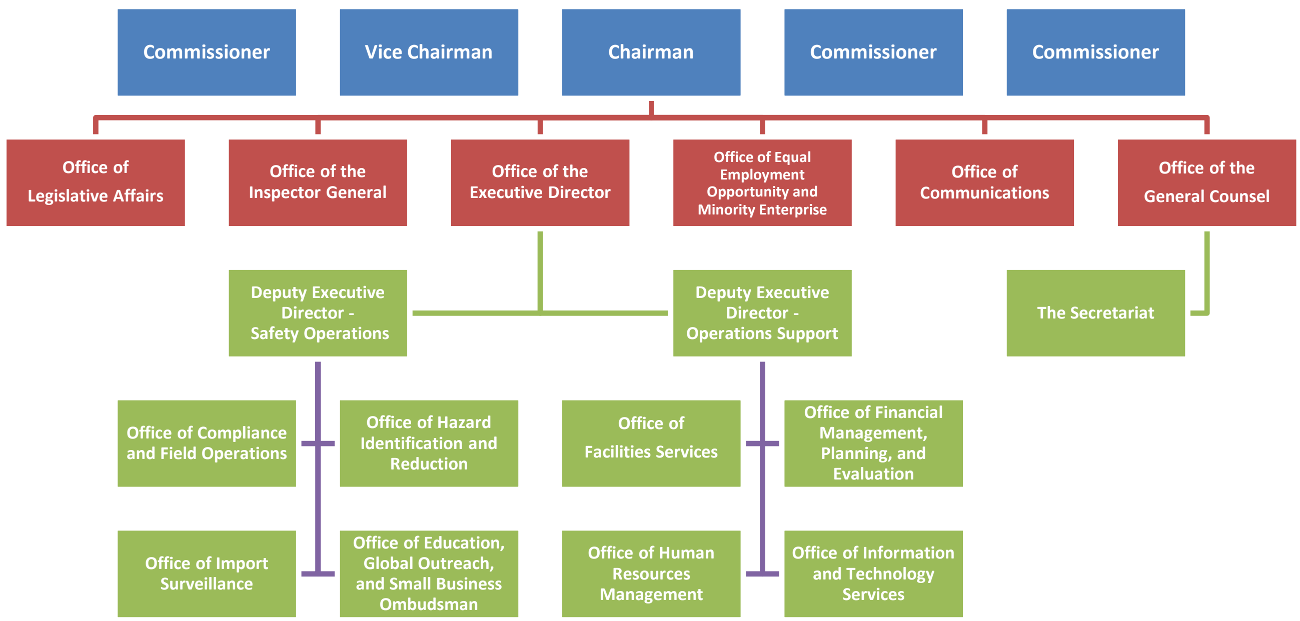
Robert S. Adler
Acting Chairman
December 16, 2013

This page intentionally left blank.

Management's Discussion & Analysis

ORGANIZATIONAL STRUCTURE

The Commission consists of five members appointed by the President with the advice and consent of the Senate. The Chairman is the principal executive officer of the Commission.* The following depicts the organizational structure of the CPSC in fiscal year 2013:



* As of December 1, 2013, Robert S. Adler is the Acting Chairman of the CPSC. Also, as of the date of this report, two Commissioner positions are vacant.

FY 2011-2016 STRATEGIC PLAN SUMMARY

Vision: The CPSC is the recognized global leader in consumer product safety.

Objectives for Strategic Goal One: Leadership in Safety

- 1.1 Determine the most critical consumer product hazards and issues to define the Commission's annual priorities consistent with the agency's regulatory requirements.
- 1.2 Create and strengthen partnerships with stakeholders aimed at improving product safety throughout the supply chain.
- 1.3 Collaborate with partners ranging from state and federal authorities, colleges and universities, and other stakeholders to expand the CPSC's effectiveness and reach.
- 1.4 Work towards harmonizing global consumer product standards or developing similar mechanisms to enhance product safety.
- 1.5 Promote and recognize innovation and advancements in consumer product safety.
- 1.6 Attract, retain, and collaborate with leading experts to address consumer product hazards.

Objectives for Strategic Goal Two: Commitment to Prevention

- 2.1 Minimize hazardous defects early in the manufacturing process through increased participation in voluntary standards activities.
- 2.2 Improve the safety of consumer products by issuing mandatory standards, where necessary and consistent with statutory authority, in response to identified product hazards.
- 2.3 Facilitate the development of safer products by training industry stakeholders on the CPSC's regulatory requirements and hazard identification best practices.
- 2.4 Develop programs that provide incentives for manufacturers and importers to implement preventive actions that enable the safety of their products.
- 2.5 Engage foreign product safety regulators and foreign manufacturers to reduce the production of unsafe consumer products that may enter the U.S. market.

Objectives for Strategic Goal Three: Rigorous Hazard Identification

- 3.1 Improve the quality and comprehensiveness of crucial product hazard data.
- 3.2 Reduce the time it takes to identify hazard trends by improving the collection and assessment of hazard data.
- 3.3 Establish a transparent, risk-based methodology to consistently identify and prioritize hazards to be addressed.
- 3.4 Expand import surveillance efforts to reduce entry of unsafe products at U.S. ports.
- 3.5 Scan the marketplace regularly to determine whether previously identified significant hazards exist in similar products.
- 3.6 Increase surveillance of used and resale consumer products to identify and remove recalled products and substantial product hazards.

Objectives for Strategic Goal Four: Decisive Response

- 4.1 Expand the CPSC's ability to conduct a full range of inspections to monitor for noncompliant and defective products.
- 4.2 Use a risk-based methodology to prioritize the CPSC's targeted response to addressable product hazards.
- 4.3 Increase the efficiency and speed of recalls of noncompliant and defective products.
- 4.4 Reduce the time it takes to inform consumers and other stakeholders of newly identified hazards and the appropriate actions to take.
- 4.5 Hold violators accountable for hazardous consumer products on the market by utilizing enforcement authorities.

Objectives for Strategic Goal Five: Raising Awareness

- 5.1 Increase awareness of the CPSC to ensure the public knows where to turn for information on consumer product safety, where to report hazardous incidents, and knows about the enforcement capabilities used to address product dangers.
- 5.2 Provide stakeholders with easily accessible, timely, and useful safety information on consumer product hazards.
- 5.3 Deploy targeted outreach campaigns for priority hazards and vulnerable communities.
- 5.4 Increase access to consumer product safety information for industry and small businesses.

KEY PERFORMANCE MEASURES

ID	Program	Performance Measure Statement	FY 2011 Actual	FY 2012 Actual	FY 2013 Target	FY 2013 Actual
Strategic Goal 1: Leadership in Safety						
1.2.1	Global	Number of training or outreach seminars for foreign manufacturers conducted by CPSC staff	3	8	1	12
1.2.2	Global	Number of staff exchanges with foreign counterparts undertaken as part of the Extended Training Exchange Program	--	2	6	2
1.2.3	Global	Number of new collaborations undertaken with domestic nongovernment organizations (NGOs) and universities	--	--	2	2
1.4.1	Global	Number of products on which CPSC had consultations with foreign counterparts	--	3	3	3
1.6.1	Personnel	Employee retention rate	84.9%	85%	85%	Data not available
1.6.2	Personnel	Average hiring time (recruitment time using OPM's End-to-End hiring process) (days)	75	75	80	73
1.6.3	Personnel	Training participation rate	71.7%	73.6%	80%	83%
Strategic Goal 2: Commitment to Prevention						
2.1.1	Hazard	Number of voluntary standards activities supported or monitored by CPSC staff	60	70	74	74
2.1.2	Hazard	Number of collaborations established or maintained with other organizations to work on nanotechnology research or issues affecting consumer products	8	8	8	4
2.1.3	Hazard	Number of reports produced on the results of collaboration on nanotechnology issues affecting consumer products	1	9	5	11
2.2.1	Hazard	Number of candidates for rulemaking prepared for Commission consideration	22	28	27	14
2.3.1	Global	Number of training activities made available to industry stakeholders	--	--	12	14
Strategic Goal 3: Rigorous Hazard Identification						
3.1.1	Hazard	Percentage of National Electronic Injury Surveillance System (NEISS) member hospitals evaluated at least once a year	100%	98%	98%	99%
3.1.2	Hazard	Percentage of consumer product-related injury cases correctly captured at NEISS hospitals	94%	92%	90%	92%
3.2.1	Hazard	Time from incident received to adjudication of incident report (mean days)	--	--	10	6.5
3.2.2	Hazard	Percentage of priority import regulated samples (excluding fireworks) tested within 30 days of collection	--	85%	95%	92%
3.2.3	Hazard	Percentage of priority import fireworks samples tested within 60 days of collection	92%	99.7%	90%	100%
3.4.1	Import	Number of import examinations	9,923	18,131	13,000	26,523
3.4.2	Import	Sample yield per 100 import entries examined as identified through the Risk Assessment Methodology (RAM) pilot system	--	26	26	28.8
3.4.3	Import	Percentage of import shipments cleared within 1 business day	--	--	Baseline	99.5%
3.4.4	Import	Percentage of CPSC import entry hold requests acted on by CBP	--	--	Baseline	86%
3.4.5	Import	Establish an ITDS/RAM rule set to target intellectual property violations where a health and safety hazard is suspected in consumer product imports	--	--	--	Applicable for FY 14
3.5.1	Compliance	Total number of products screened by CPSC Field staff	--	--	Baseline	240,847
3.5.2	Compliance	Number of consumer products screened by CPSC Field staff through Internet surveillance activities	--	--	Baseline	24,920

ID	Program	Performance Measure Statement	FY 2011 Actual	FY 2012 Actual	FY 2013 Target	FY 2013 Actual
3.5.3	Hazard	Number of annual reports completed on consumer product-related fatalities, injuries, and/or losses for specific hazards	14	11	11	11
3.6.1	Compliance	Number of used/resale consumer products screened by CPSC Field staff	--	--	Baseline	180,808
Strategic Goal 4: Decisive Response						
4.1.1	Compliance	Number of establishment inspections conducted by CPSC Field staff	1,116	1,184	1,000	3,680
4.1.2	Compliance	Percentage of products screened by CPSC Field staff resulting in violations	--	--	Baseline	6.9%
4.1.3	Hazard	Total number of items/component parts from samples tested at NPTEC for specific standards and regulations	32,705	40,066	36,000	37,063
4.3.1	Compliance	Percentage of all cases for which the preliminary determination is made within 85 business days of the case opening	--	--	70%	84%
4.3.2	Compliance	Percentage of cases for which the corrective action is accepted within 60 business days of the preliminary determination	95%	98%	80%	88%
4.3.3	Compliance	Percentage of cases in which the firm is notified of a violation in a timely manner	--	--	Baseline	94%
4.3.4	Compliance	Percentage of Fast-Track cases with corrective actions initiated within 20 business days	95%	99%	90%	98%
4.4.1	Communications	Average number of days from first draft of recall press release completed to recall press release issued	--	--	Baseline	27.5
4.5.1	Compliance	Percentage of compliance defect investigation cases referred within 10 business days to OGC for review of firms' timely reporting pursuant to Section 15(b)	--	--	Baseline	57%
Strategic Goal 5: Raising Awareness						
5.1.1	Communications	Percentage of the population that reports awareness of the CPSC	--	--	Baseline	Data not available
5.1.2	Communications	Percentage of consumers who report acting on a CPSC safety message	--	--	Baseline	Data not available
5.2.1	Communications	Number of public information campaigns conducted by CPSC on specifically identified consumer product safety hazards	24	23	24	24
5.2.2	Communications	Number of impressions received by consumers of CPSC safety messages (in millions)	1,929	4,209	2,635	4,628
5.3.1	Communications	Number of impressions of CPSC safety messages on priority hazards received by consumers in vulnerable communities (in millions)	751	437	210	1,395

- **Baseline:** Indicates a performance measure newly established in FY 2013 for which a target was not established. A target will be established in a future fiscal year based on analysis of the baseline data collected.
- Details on the key performance measures are available in *Supplemental Information on FY 2013 Key Performance Measures*, which can be found at: http://www.cpsc.gov/Performance-and-Budget.

SELECTED PERFORMANCE RESULTS

Goal 1: Leadership in Safety

The CPSC takes a leadership role in identifying and addressing the most pressing consumer product safety priorities and mobilizing action by key global and domestic stakeholders. The CPSC collaborates with other regulatory agencies, standards development organizations, and consumer and industry groups across multiple geographies and priorities as a way of leveraging its limited resources. The Office of Education, Global Outreach, and Small Business Ombudsman provides education and outreach activities to manufacturers, retailers, resellers, small businesses, and foreign governments. The CPSC also works to harmonize global consumer product standards as a way to improve consumer product safety. Selected achievements include:

- The CPSC trained approximately 16,000 executive, quality control, and plant and safety professionals throughout the world in FY 2013, for a cumulative total of nearly 30,000 foreign professionals trained since 2011.
- In September 2013, the CPSC participated with Canada and Mexico in the second trilateral North America Consumer Product Safety Summit to discuss areas of common interest and collaboration under a cooperative framework that was established at the first trilateral summit, held at CPSC headquarters in Bethesda, MD in 2011.
- In FY 2013, the CPSC coordinated an extended training exchange at the CPSC for an employee of the counterpart consumer product regulatory authority in Brazil, and sent a CPSC employee for a training exchange to Health Canada. In FY 2012, the CPSC hosted an exchange employee from Canada and one from Australia. The purpose of the exchange program is to improve consumer product safety in the United States through capacity building with product safety agencies in source countries and by obtaining unique knowhow from partner regulators in developed markets.

Goal 2: Commitment to Prevention

The CPSC participates in the development of voluntary safety standards, issues mandatory safety rules, trains industry stakeholders on regulatory requirements and hazard identification best practices, and engages foreign product safety regulators and foreign manufacturers to reduce production of unsafe consumer products that could enter the U.S. market. Since the passage of the CPSIA in 2008, the CPSC has made significant progress toward creating stronger mandatory standards and has implemented significant portions of the CPSIA. Some accomplishments include:

- The CPSC completed 160 CPSIA-related rulemaking activities, of which 39 were final rules. In FY 2013, the CPSC completed 7 final rules.
- CPSC staff hosted the 2013 CPSC Safety Academy in Seattle, WA in September 2013. More than 180 safety professionals attended. The event focused on best practices and import procedures.
- In October 2012, the CPSC held an All-Terrain Vehicle (ATV) Safety Summit, which provided stakeholders a venue to share information and lessons learned regarding public awareness, information and education, training, and technology relating to ATVs.

Goal 3: Rigorous Hazard Identification

The CPSC must quickly and accurately determine which addressable product hazards represent the greatest risks to consumer safety to focus the agency's limited resources. This involves analyzing a large amount of data on injuries, deaths, and other incidents related to consumer product safety. Data come from a wide range of sources, including consumers and consumer groups, hospitals and clinics, industry, the media, and the Internet. CPSC staff works to improve the quality of crucial product hazard data, investigates specific injury cases to gain additional knowledge, and monitors used and resale consumer products to prevent previously identified hazardous products from re-entering the marketplace. Notable achievements include:

- In FY 2013, more than 24,000 different imported consumer products were screened at U.S. ports, and more than 6 million violative or potentially hazardous consumer product units were stopped from entering commerce.
- In FY 2013, the CPSC's Internet Surveillance unit contacted approximately 12,040 firms and individuals who were attempting to sell banned or previously recalled consumer products via Internet websites, causing sales to be halted and keeping dangerous products out of the marketplace.
- The CPSC Consumer Hotline received more than 98,000 calls in FY 2013.

Goal 4: Decisive Response

Once hazardous products have been identified, the CPSC takes action to protect consumers, remove the products from the marketplace, and hold violators accountable. Field staff conducts investigations of incidents and injuries, as well as inspections of manufacturers, retailers, and importers. Multidisciplinary teams of CPSC staff review investigation reports and product samples to determine when possible violations and defects warrant corrective action. The CPSC also holds violators accountable for hazardous consumer products, using its enforcement authority to seek civil, and in some cases, criminal penalties, as appropriate when companies fail to report potentially hazardous products as required. Key accomplishments in FY 2013 include:

- CPSC staff completed approximately 3,680 establishment inspections of firms for compliance with the CPSC's laws and regulations.
- CPSC staff sent approximately 1,890 letters of advice and negotiated approximately 345 corrective action plans to address safety in consumer products.
- The CPSC conducted approximately 370 recalls, involving approximately 31 million units.
- The CPSC negotiated nearly $8 million in civil penalties through out-of-court settlements.

Goal 5: Raising Awareness

The CPSC uses a wide array of communication channels and strategies to provide the public with timely and targeted information about consumer product safety issues. CPSC staff disseminates safety messages through press releases, newspaper stories, radio stories, TV appearances, and video broadcasts. The CPSC uses the Internet and a variety of social media platforms to disseminate information, including an OnSafety blog, Twitter, YouTube, Flickr, Widgets, Google+, and smart phone apps. Accomplishments include:

- More than six billion impressions of CPSC safety messages were received by consumers in FY 2013, including approximately 640.8 million impressions for the CPSC's crib safety education program "Safe to Sleep," approximately 58.4 million impressions for minority outreach efforts, and an estimated 695.3 million impressions for pool and spa safety.
- The CPSC increased the number of members of the Neighborhood Safety Network (NSN) from approximately 3,000 in 2009 to 6,850 in January 2013. The NSN is a grassroots outreach program that provides timely information to member organizations and individuals, who in turn, share CPSC safety messages with underserved consumers who might otherwise never hear of or receive information from the CPSC.
- There were an estimated 27,000 followers of CPSC safety messages on Twitter in FY 2013. (The 27,000 Twitter followers are for the CPSC's @OnSafety, @PoolSafely, and @SeguridadConsum.)

Details on the key performance measures will be presented in the CPSC's 2013 Annual Performance Report, which will be submitted with the 2015 Congressional Budget Justification, expected to be published in February 2014. Details are also available in the *Supplemental Information on FY 2013 Key Performance Measures*, which can be found at: http://www.cpsc.gov/ /Performance-and-Budget.

ANALYSIS OF FINANCIAL STATEMENTS AND STEWARDSHIP INFORMATION

Financial Performance Overview

As of September 30, 2013, the financial condition of the CPSC was sound with adequate funds to meet program needs and satisfactory controls in place to ensure CPSC obligations did not exceed budget authority. The CPSC prepared its financial statements in accordance with the accounting standards codified in the Statements of Federal Financial Accounting Standards and with OMB Circular No. A-136, Financial Reporting Requirements.

Sources of Funds: The CPSC's FY 2013 annual appropriation from Congress was $114.5 million. However, the total budget authority available to the CPSC was reduced by a 0.2 percent across-the-board rescission ($0.23 million) and by the 5 percent Budget Control Act sequestration ($5.76 million). The CPSC's budget authority after the reductions was $108.5 million, of which $0.5 million will remain available until September 30, 2014 to implement the Virginia Graeme Baker Pool and Spa Safety Act (VGB Act) grant program. Additional funds available to obligate in FY 2013 were $0.5 million from prior-year unobligated appropriations to implement the VGB Act grant program and $2.9 million from offsetting collections. The sum of all operating funds available for obligation in FY 2013 was $111.9 million.

Schedule of Spending (Costs by Function): The CPSC incurred costs of $111.2 million in FY 2013, which was a decrease of $5.5 million from FY 2012. Approximately 63 percent of costs were for salaries and benefits. The remaining 37 percent represents expenses to obtain technical assistance for the CPSC's regulatory programs, to cover operating expenses, and to fund staff travel. Salaries and benefits decreased by $0.5 million as compared to FY 2012. All other cost categories decreased by approximately $5.0 million from the prior fiscal year. The CPSC established a full-time equivalent (FTE) personnel ceiling of 528 in FY 2013 in response to the across-the-board rescission and sequestration. The CPSC operated below the FY 2012 staffing levels, Travel, training, supplies, and other general operating expenses were reduced consistent with available funding. Project support funding (*i.e.*, contract funding) for select projects was deferred. For example, the annual Pool and Spa Safety Act Information and Education (PSSA I&E) Campaign, intended to increase pool safety awareness to prevent accidental drowning and often referred to as the "Pool Safely Campaign," was reduced in FY 2013. The CPSC also reduced its research and development support for the interagency National Nanotechnology Initiative (NNI).

Cost by Function (millions)	FY 2013	FY 2012	Increase (Decrease)	Percentage (%)
Salaries and Benefits	$ 69.7	$ 70.2	$ (0.5)	-1%
Contractual Services	28.0	31.4	(3.4)	-11%
Rent/Comm/Utilities	9.3	10.1	(0.8)	-8%
Structures and Equipt	1.9	2.8	(0.9)	-32%
Travel/Transportation	1.3	1.4	(0.1)	-7%
Printing/Supplies/Other	1.0	0.8	0.2	25%
Total Costs	$ 111.2	$ 116.7	$ (5.5)	-5%

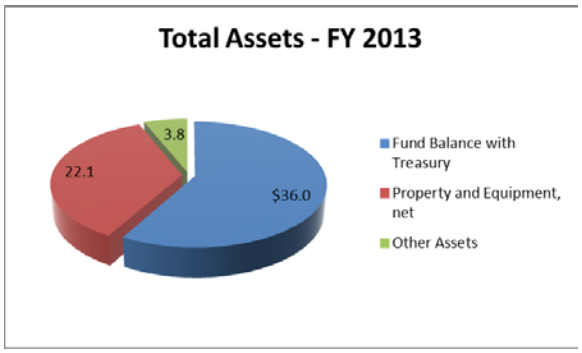
Audit Results. The CPSC received an unqualified audit opinion on its FY 2013 financial statements. For FY 2013, the independent auditor noted one material weakness in internal controls existed in the financial reporting process related to the recording of leasehold improvements in prior years. The recording errors have been corrected (see Note 15).

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.

Analysis of the Balance Sheet

The CPSC's assets totaled approximately $61.9 million as of September 30, 2013, representing a decrease of $2.2 million from September 30, 2012. The assets reported in the CPSC's Balance Sheet are summarized in the Asset Summary table.

Assets (millions)	FY 2013	FY 2012	Increase (Decrease)	Percentage (%)
Fund Balance with Treasury	$ 36.0	$ 37.5	$ (1.5)	-4%
Property and Equipment, net	22.1	24.4	(2.3)	-9%
Other Assets	3.8	2.2	1.6	73%
Total Assets	$ 61.9	$ 64.1	$ (2.2)	-3%



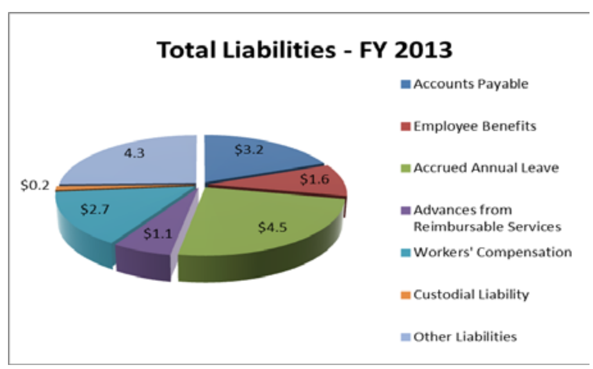
Fund Balance with the U.S. Treasury represented the CPSC's largest asset of $36 million as of September 30, 2013, a decrease of $1.5 million from the year-end FY 2012 balance. The decrease was primarily due to a reduction in the budget appropriation. This balance represented appropriated funds and other funds maintained at the U.S. Treasury until final disposition is determined.

Property and Equipment, net, had a balance of $22.1 million as of September 30, 2013, a decrease of $2.3 million from year-end FY 2012 due to depreciation. The balance was comprised of the net value of the CPSC's leasehold improvements, equipment, furniture and fixtures, and computer hardware and software.

Other Assets had a balance of $3.8 million as of September 30, 2013. This balance represents advances to other federal agencies for interagency services such as participation in the nanotechnology initiative and the accounting services that the CPSC contracts for through the Department of Transportation. Included in *Other Assets* were accounts receivable, which are comprised of uncollected amounts from civil fines and penalties issued by the CPSC to entities under its regulation as well as unpaid Freedom of Information Act (FOIA) request fees. *Other Assets* also includes the unused tenant improvement allowance from the CPSC's rental lease agreement with the General Services Administration (GSA).

The CPSC's liabilities were $17.6 million as of September 30, 2013, a $0.1 million increase in total liabilities from FY 2012, attributable primarily to a decrease in the custodial liabilities account and offset by the cumulative increase of all other liability categories. As of September 30, 2013, the custodial liabilities account had a balance of $0.2 million as compared to $2.2 million at the prior year end. The $2.0 million decrease in custodial liabilities account resulted from more timely collections and transfers of fines and penalties to the U.S. Treasury. The $2.1 million increase in other categories of liabilities was primarily due to incurrence of tenant improvement allowance from the CPSC's new rental lease agreement with GSA for the CPSC's headquarters office space in Bethesda, MD.

Liabilities (millions)	FY 2013	FY 2012	Increase (Decrease)	Percentage (%)
Accounts Payable	$ 3.2	$ 3.6	$ (0.4)	-11%
Employee Benefits	1.6	1.4	0.2	14%
Accrued Annual Leave	4.5	4.5	0.0	0%
Advances from Reimbursable Services	1.1	1.1	0.0	0%
Workers' Compensation	2.7	2.2	0.5	23%
Custodial Liabilities	0.2	2.2	(2.0)	-91%
Other Liabilities	4.3	2.5	1.8	72%
Total Liabilities	$ 17.6	$ 17.5	$ 0.1	1%



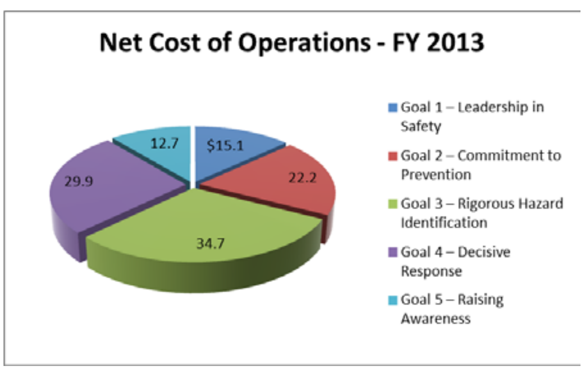
The difference between total assets and total liabilities is net position. The CPSC's net position was approximately $44.4 million as of September 30, 2013 as compared to $46.5 million as of September 30, 2012. The 5 percent decrease in net position from FY 2012 to FY 2013 was due to the decrease in financing sources exceeding the decrease in net cost of operations.

Net Position Summary (millions)	FY 2013	FY 2012	Increase (Decrease)	Percentage (%)
Unexpended Appropriations	$ 31.6	$ 31.2	$ 0.4	1%
Cumulative Results of Operations	12.8	15.3	(2.5)	-16%
Total Net Position	$ 44.4	$ 46.5	$ (2.1)	-5%

Analysis of the Statement of Net Cost

The Statement of Net Cost presents a breakdown of the CPSC's net cost by Strategic Goal. The table below shows net costs for each of the five Strategic Goals in the CPSC's FY 2011 - 2016 Strategic Plan.

Net Cost of Operations (millions)	FY 2013	FY 2012	Increase (Decrease)	Percentage (%)
Goal 1 – Leadership in Safety	$ 15.1	$ 15.6	$ (0.5)	-3%
Goal 2 – Commitment to Prevention	22.2	25.7	(3.5)	-14%
Goal 3 – Rigorous Hazard Identification	34.7	37.3	(2.6)	-7%
Goal 4 – Decisive Response	29.9	30.2	(0.3)	-1%
Goal 5 – Raising Awareness	12.7	13.6	(0.9)	-7%
Net Cost of Operations	$ 114.6	$ 122.4	$ (7.8)	-6%



The CPSC's net cost of operations was $114.6 million for the fiscal year ended September 30, 2013, a decrease of $7.8 million from prior year end. The majority of the decrease was due to the overall reduction in the agency's resources caused by the across-the-board rescission and sequestration. The Statement of Net Cost includes costs that will be funded in the future and are required to be recognized as part of the cost of operations. However, these costs are not part of the costs presented by the Schedule of Spending. The reconciliation of the Statement of Net Cost and the Schedule of Spending is in Note 12 of the Notes to Financial Statements, in the Financial Section of this report.

Analysis of Statement of Changes in Net Position

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 decrease in net position from FY 2012 to FY 2013 resulted from the $10.3 million decrease in financing sources, which exceeded the decrease of $7.7 million in the net cost of operations. The financing sources reduction was described in the previous section.

Analysis of the Statement of Budgetary Resources

The Statement of Budgetary Resources shows the sources of budgetary resources available and the status at the end of the period. This statement represents the relationship between budget authority and budget outlays and reconciles obligations to total outlays. This statement also includes unobligated balances from prior years. For the fiscal year ended September, 30, 2013, the CPSC had available budgetary resources of $121.5 million, principally derived from new spending authority and representing a decrease of $3.4 million from the FY 2012 available budgetary resources of $124.9 million. The unobligated budget authority available on September 30, 2013, was $10.3 million, an increase of $2.0 million from FY 2012.

Total net outlays for FY 2013 were $109.4 million, which represents an $8 million decrease from FY 2012 net outlays of $117.4 million. The decrease resulted from approximately $8 million in lower gross outlays in FY 2013 from the prior year and was primarily due to the decrease in budget authority.

Analysis of the Statement of Custodial Activity

The Statement of Custodial Activity displays the total custodial revenue and the disposition of collections related to that revenue activity. This statement precludes reported revenue billed and collected by the CPSC on behalf of the U.S. Government from being duplicated as reported revenue on the consolidated government's Statement of Net Cost. The CPSC reported $7.1 million in custodial revenue for the fiscal year ended September 30, 2013, compared to $7.9 million for the fiscal year ended September 30, 2012 .

CONTROLS, SYSTEMS, AND LEGAL COMPLIANCE

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

- Federal Managers' Financial Integrity Act of 1982 (FMFIA),
- OMB Circular No. A-123, Management's Responsibility for Internal Control,
- Federal Financial Management Improvement Act of 1996 (FFMIA),
- Prompt Payment Act,
- Debt Collection Improvement Act of 1996, and
- Improper Payments Elimination and Recovery Act (IPERA).

Federal Managers' Financial Integrity Act of 1982 (FMFIA)

The FMFIA requires agencies to provide assurances in each of the following coverage areas:

- FMFIA Section 2 (Overall) – Management provides assurances of the overall adequacy and effectiveness of internal control within the agency and compliance with laws and regulations;
- FMFIA Section 2 (Financial Reporting) – OMB Circular No. A-123 Appendix A – Management provides a separate assurance over the effectiveness of internal control for financial reporting. OMB Circular No. A-123 and its appendices, as well as OMB Circular No. A-127, provide guidance on the assessment of controls and FMFIA reporting; and
- FMFIA Section 4 (System Compliance) – Management provides and evaluates conformance of financial management systems to related requirements.

The FMFIA requires federal agencies to establish controls to reasonably assure 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 for. 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 CPSC leadership in addition to maximizing favorable program outcomes.

CPSC managers are responsible for evaluating controls within their areas of responsibility. These evaluations provide reasonable assurance that the CPSC's management controls achieved their intended objectives. In FY 2013, each office director or designee prepared an annual assurance statement that identified any control weaknesses that required the attention of the Chairman. These statements were based on various sources of information and included:

- Management knowledge gained from the daily operation of the agency programs and reviews,
- Management reviews,
- Annual performance plans, and
- Inspector General reports.

Individual assurance statements provide the framework for evaluating the agency's management controls. All offices within the CPSC responded with reasonable assurance that their internal controls achieved intended results, that resources used were consistent with the CPSC's mission, that laws and regulations were followed, and that reliable and timely information was obtained, maintained, reported and used for decision making. Major activities used to monitor internal controls were also evaluated and taken into consideration for these statements of reasonable assurance.

The CPSC received an unqualified audit opinion on its FY 2013 financial statements. The independent auditor also noted one material weakness in internal control existed in the financial reporting process related to the recording of leasehold improvements in prior years. The recording errors have been corrected (see Note 15). The CPSC provided reasonable assurance that agency controls met their intended objectives, and qualified assurance that the agency's internal control over financial reporting was operating effectively. Lastly, the independent auditor reported one known instance of reportable noncompliance with laws and regulations. The agency has already taken substantial corrective action to address the audit findings and will work to complete all corrective actions in FY 2014.

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

The CPSC evaluated its internal controls and undertook a separate assessment of internal control over financial reporting under Circular No. A-123 Appendix A for FY 2013. During FY 2012, the agency implemented a Circular No. A-123 Internal Control Program and conducted a comprehensive assessment of internal control over financial reporting to better equip the CPSC with a documented, structured, and effective internal control program for FY 2013. The approach that was undertaken included testing and evaluating key controls and developing and implementing corrective action plans across nine of the agency's financial cycles. Results of the testing of controls for FY 2013 disclosed no significant deficiencies or material weaknesses within the agency's nine financial cycles. Based on the results of this evaluation, the CPSC provided reasonable assurance that the internal controls were operating effectively and that no material weaknesses were found in the design or operation of the management tested internal controls as of September 30, 2013.

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 systems compliance with the FFMIA and to develop remediation plans for noncompliant financial systems.

FY 2013 FFMIA Results

As of September 30, 2013, 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. The CPSC utilizes financial systems through a shared service provider (SSP), operated by the Department of Transportation's Enterprise Services Center (ESC). CPSC managers reviewed the Independent Audit Report SSAE-16 conducted on behalf of 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. CPSC managers' review of the CPSC's financial management systems in FY 2013 demonstrated that the agency is in compliance with the FFMIA.

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, 2013, 98.7 percent of the CPSC's payments that were subject to the Prompt Payment Act were made on time. The CPSC incurred $1,395.70 in interest penalties in FY 2013. The agency made 89.0 percent of its vendor payments electronically in FY 2013.

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, 2013, delinquent debt was approximately $9,294, which was approximately 0.11 percent of the agency's FY 2013 billings. The CPSC pursues the collection of delinquent debt and refers all eligible delinquent debt over 180 days to the U.S. Treasury for collection.

Improper Payments Elimination and Recovery Act (IPERA)

The Improper Payments Elimination and Recovery Act (IPERA) (Public Law No. 111-204), which amended the Improper Payments Information Act (Public Law No. 107-300), was aimed at reducing improper and erroneous payments made by the federal government and is reflected in the Office of Management and Budget (OMB) Circular A-123. In accordance with OMB guidance, the CPSC tested for improper payments in FY 2013.

The IPERA requires that each federal agency conduct a review or risk assessment of all programs and activities, identify those that were susceptible to significant improper payments, and provide a gross estimate of improper payments for the agency. The CPSC's review identified the following programs and activities to which the OMB guidance applies: (1) contracting activities, (2) Blanket Purchase Agreement (BPA) calls, and (3) purchase card transactions. Expenditures for these programs and activities in 2012 totaled $32.5 million: $28.2 million for all contract activities; $2.7 million for BPA calls and purchase orders below $2,500; and $1.6 million for purchase card transactions.

A CPSC statistician extracted a statistically valid sample of 465 commercial payments totaling $7.2 million to estimate the gross improper payment amount. The estimated proportion of proper payments is 99.7 percent with a 95 percent confidence interval of 99.2 percent to 100 percent. Conversely, the estimated proportion of improper payments is approximately 0.3 percent.

This rate is far below the OMB's significant improper payment threshold of 2.5 percent of program outlays and $10 million of all program or activity payments made during the fiscal year. Therefore, no corrective action plans are required.

Additionally, in March 2013, the CPSC received the results of an independent auditor's review of the CPSC's FY 2012 compliance with the IPERA. Recommendations and corrective actions from the review were fully implemented by the CPSC before estimating the FY 2013 gross improper payments.

LOOKING AHEAD

In FY 2013 and beyond, the agency will continue with its efforts in identifying noncompliant products through the CPSC's Import Surveillance program, enforcement of CPSC regulations, and marketplace surveillance. Additionally, the agency will continue adopting regulations for durable nursery products and other consumer products that are likely to pose unreasonable risks of injury. Furthermore, the CPSC will continue to strive for injury prevention through its efforts in educating consumers, manufacturers, and other stakeholders at both the domestic and international levels.

The CPSC has received prior appropriations for the Virginia Graeme Baker Pool and Spa Safety Act Grant (VGB Act Grant) program, which is intended to increase pool safety awareness and to prevent injuries and deaths associated with pool and spa drownings. Established by the Virginia Graeme Baker Pool and Spa Safety Act, P.L. 110-140, Title XIV, the VGB Act Grant program has been funded by two-year appropriations. The CPSC has yet to award grants. The authorizing language inadvertently contained certain requirements that potential state, local, and municipal applicants have not been able to meet. The CPSC anticipates future legislation clarifying the grant requirements. If the clarifying legislation is enacted in FY 2014, the CPSC may be able to proceed with grant awards shortly thereafter.

The Federal government has been funded by a series of incremental continuing resolutions over the last several years. Accordingly, it is typically several months into the fiscal year before the CPSC has been able to finalize and execute its annual operational requirements. In FY 2013, the agency was also impacted by a 5 percent across-the-board funding reduction in accordance with section 251A of the Balanced Budget and Emergency Deficit Control Act, as amended, 2 U.S.C. 901a. The sequestration reductions occurred six months into the fiscal year and required the agency to reprioritize agency activities. The Federal government is operating under a continuing resolution as of the issuance of this report, and until a final appropriation decision is reached by the Congress, it is unclear whether or to what degree sequestration will be implemented in FY 2014 and whether priorities would be materially impacted.

MANAGEMENT ASSURANCE STATEMENT

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

In accordance with the requirements of the Office of Management (OMB) Circular No. A-123 "Management's Responsibility for Internal Control," the CPSC conducted its FY2013 assessment of the effectiveness of internal controls. Based on the results of this assessment, the CPSC is providing reasonable assurance that the internal controls in effect as of September 30, 2013 met their intended objectives and no material weaknesses were found in the agency's controls.

In addition, the CPSC assessed the effectiveness of internal control over financial reporting in accordance with OMB Circular A-123. Based on the results of this evaluation and consistent with the independent auditor's report, the CPSC is providing qualified assurance that the agency's internal control over financial reporting as of September 30, 2013 was operating effectively with the exception of one material weakness in the operation of the internal control related to leasehold improvements, summarized on page 63.

Further, the CPSC conducts reviews of its financial systems in accordance with OMB Circular No. A-127, Financial Management Systems. Based on the results of these reviews, the CPSC determined that the CPSC financial management systems conform to government-wide requirements as of September 30, 2013.

Robert S. Adler
Acting Chairman
December 16, 2013

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 2013 and FY 2012, pursuant to the requirements of Title 31 of the U.S. Code, section 3515 (b).

While the statements have been prepared from the books and records of the CPSC in accordance with accounting principles generally accepted in the United States of America 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.

Financial Section

MESSAGE FROM THE CHIEF FINANCIAL OFFICER

The Consumer Product Safety Commission 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 continued to make sustained progress toward its goal of financial management excellence. The CPSC's financial management accomplishments in fiscal year 2013 included the following:

- The CPSC undertook an assessment of internal controls over financial reporting to assess the effectiveness of the internal controls program.
- In response to the significant deficiency on accounts payable and budget monitoring identified in the fiscal year 2012 financial statement audit, the CPSC improved the invoice approval processes, implemented new policies and procedures, and trained affected CPSC personnel.
- The CPSC implemented improved internal controls for the travel and purchase card programs with an emphasis on proactive data analysis to identify and correct instances of misuse.
- The CPSC increased awareness of travel management policies, procedures, and systems among affected employees that travel by providing training on Federal Travel Regulations and the automated travel reservation and reimbursement system.
- The CPSC developed a new presentation for the Statement of Net Costs to describe costs by the five strategic goals. The Statement of Net Costs can be found in the financial statement package of this report.

The CPSC was satisfied to have received an unqualified opinion on its fiscal year 2013 financial statements. However, work remains to improve the financial management capability of the agency. The independent auditor's report identified a material weakness in internal controls over financial reporting. The reporting errors have been corrected and are properly reflected in this report. The financial management team will work to improve the related internal controls to remedy the material weakness.

I am pleased with our progress and achievements in financial management. The accomplishments in fiscal year 2013 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 Inspector General, as we continue to work together to achieve financial management excellence.

Sincerely,

Jay Hoffman
December 16, 2013

INDEPENDENT AUDITOR'S REPORT

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

Christopher W. Dentel
Inspector General

Tel: 301 504-7644
Fax: 301 504-7004
Email: cdentel@cpsc.gov

Date: December 16, 2013

TO Robert S. Adler, Acting Chairman
Marietta Robinson, Commissioner
Ann Marie Buerkle, Commissioner

FROM Christopher W. Dentel, Inspector General

SUBJECT Audit of the Consumer Product Safety Commission's Fiscal Year 2013 Financial Statements

Pursuant to the Chief Financial Officers Act of 1990, commonly referred to as the "CFO Act," as amended, this letter transmits the Independent Auditor's Report issued by CliftonLarsonAllen (CLA), for the fiscal year ending September 30, 2013. 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. 07-04, *Audit Requirements for Federal Financial Statements,* as amended.

Opinion on the Financial Statements

CLA audited the balance sheet of the Consumer Product Safety Commission (CPSC) as of September 30, 2013, and the related statements of net cost, changes in net position, budgetary resources, and custodial activity (the financial statements) for the year then ended. 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 direct and material effect on its financial statements. The financial statements of the CPSC as of September 30, 2012, were not audited by CLA. As part of CLA's audit of the FY 2013 financial statements, they also audited adjustments described in Note 15 of the Financial Statements that were applied to restate the FY 2012 financial statements. In CLA's opinion, such adjustments were appropriate and had been properly applied. CLA was not engaged to audit, review, or apply any procedures to the FY 2012 financial statements of the CPSC other than with respect to the adjustments and, accordingly, they did not express an opinion or any other form of assurance on the FY 2012 financial statements as a whole.

CPSC Hotline: 1-800-638-CPSC (2772) D CPSC's Web Site: http://www.cpsc.gov

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 year ending September 30, 2013, 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 significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is a more than remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

- A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

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 identify deficiencies in internal control that CLA would consider to be a material weakness, as defined above. This material weakness in internal controls related to the capitalization of leasehold improvements.

CLA found that the CPSC Commission did not have a specific policy in place for recording leasehold improvements and tenant improvement allowances. These disbursements were originally expensed when incurred instead of being recorded as capitalized assets. During fiscal year 2013, the CPSC recorded the appropriate assets and adjustments to cumulative results of operations and posted a prior period adjustment which required the restatement of the fiscal year

2012 financial statements. Due to the material errors that led to the restatement detailed above and in the accompanying audit report, our report on the fiscal year 2012 financial statements, issued on November 16, 2013, is not to be relied upon.

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 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 a direct and material effect on the determination of financial statement amounts, and certain other laws and regulations specified in OMB Bulletin No. 07-04, as amended. 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 instances of noncompliance with laws and regulations that are required to be reported under U.S. generally accepted government auditing standards or OMB guidance. The CPSC has acknowledged one violation of the Antideficiency Act. In fiscal year 2012, the CPSC exceeded an appropriation limit on Reception and Representation expenses. This violation has been appropriately reported. CLA found that the CPSC had not reported a second potential violation. This violation relates to the use of appropriated funds to pay expenses associated with the CPSC's telework program. An earlier report from the OIG found that this potential violation had in fact occurred and should be reported. The agency has not yet taken final action on the matter.

Audit Follow-up

The independent auditor's report contains recommendations to address deficiencies found by the auditors. Management was provided a draft copy of the audit report for comment and generally concurred with some of the findings and recommendations. In accordance with OMB Circular No. A-50, Audit Follow-up, revised, the CPSC is to prepare a corrective action plan that will set forth the specific action planned to implement the agreed upon recommendations and the schedule for implementation. The CPSC has designated the *Chief Financial Officer* to be the audit follow-up official for the financial statement audit.

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 generally accepted 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.

Christopher W. Dentel
Inspector General

Attached: Audit Report

CliftonLarsonAllen

CliftonLarsonAllen LLP
www.cliftonlarsonallen.com

INDEPENDENT AUDITORS' REPORT

Inspector General
Consumer Product Safety Commission

Chairman
Consumer Product Safety Commission

In our audit of the fiscal year (FY) 2013 financial statements of the U.S. Consumer Product Safety Commission (Commission), we found:

- The financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America (U.S.);
- One material weakness and no significant deficiencies in internal control over financial reporting; and
- One instance of reportable noncompliance with certain provisions of laws and regulations tested and one potential instance of reportable noncompliance.

The following sections and Exhibits discuss in more detail: (1) these conclusions, (2) Management's Discussion and Analysis (MD&A) and other information included with the financial statements, (3) management's responsibilities, (4) our responsibilities, (5) management's response to findings, and (6) the current status of prior year findings.

Report on the Financial Statements

We have audited the accompanying financial statements of the Commission, which comprise the balance sheet as of September 30, 2013, 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. The objective of our audits was to express an opinion on the fairness of these financial statements.

Management's Responsibility for the Financial Statements

Commission management is responsible for the (1) preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the U.S., (2) preparation, measurement, and presentation of the required supplementary Information (RSI) in accordance with accounting principles generally accepted in the U.S., (3) preparation and presentation of other information in documents containing the audited financial statements and auditors' report, and consistency of that information with the audited financial statements and the RSI; (4) 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.

INDEPENDENT AUDITORS' REPORT (Continued)

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the U.S. and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. We also conducted our audits in accordance with Office of Management and Budget (OMB) Bulletin No. 14-02*, Audit Requirements for Federal Financial Statements* (OMB Bulletin 14-02).

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 the 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 purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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, 2013, and its net costs, changes in net position, budgetary resources, and custodial activity for the year then ended, in accordance with accounting principles generally accepted in the U.S.

Other Matters

2012 Financial Statements

The FY 2012 financial statements were audited by other auditors whose report dated November 16, 2012, expressed an unmodified opinion on those statements. As discussed in Note 15 to the financial statements, errors resulting from not capitalizing and amortizing leasehold improvements were discovered by management during the current year. Accordingly, amounts reported for property and equipment and amortization have been restated in the FY 2012 financial statements, and an adjustment has been made to cumulative results of operations as of September 30, 2011. The other auditors reported on the FY 2012 financial statements before the restatement.

As part of our audit of the FY 2013 financial statements, we also audited adjustments described in Note 15 that were applied to restate the FY 2012 financial statements. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review, or apply any procedures to the FY 2012 financial statements of the Commission other than with respect to the adjustments and, accordingly, we do not express an opinion or any other form of assurance on the FY 2012 financial statements as a whole.

INDEPENDENT AUDITORS' REPORT (Continued)

Required Supplementary Information

Accounting principles generally accepted in the U.S. require that the Commission's MD&A be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by FASAB, 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 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 the MD&A because the limited procedures we applied do not provide sufficient evidence to express an opinion or provide any assurance.

Other Information

The Message from the Chairman on page i, and other accompanying information on pages 56 to 63, contain a wide range of information, some of which is not directly related to the financial statements. This information is presented for purposes of additional analysis and is not a required part of the financial statements. The Message from the Chairman and other accompanying 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*

Report on 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.

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 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 preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, we identified certain

INDEPENDENT AUDITORS' REPORT (Continued)

deficiencies in internal control, described below and in Exhibit A, that we consider to be a material weakness.

Prior Period Adjustment – Capitalization of Leasehold Improvements

The Commission entered into a new lease for the facility that is known as 5-RP and made improvements to the property from FY 2009 to FY 2011. The Commission purchased approximately $19.2 million of leasehold improvements that were related to either build out construction of the facility or equipment that has become part of the facility. These disbursements were originally expensed when incurred instead of being recorded as capitalized assets.

In addition, the tenant improvement allowance received from the new lease agreements as well as the leasehold improvements that were purchased through the use of the tenant improvement allowance in the amount of $2.7 million from FY 2009 to FY 2012 were not recorded.

The Commission does not have policies and procedures in place for identifying and recording leasehold improvements, as well as accounting for tenant improvement allowances. During FY 2013, the Commission recorded the appropriate assets and adjustments to cumulative results of operations and posted a prior period adjustment which required the restatement of the FY 2012 financial statements.

Report on Compliance and Other Matters

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 and regulations that have a direct effect on the determination of material amounts and disclosures in the financial statements. 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 instances of noncompliance described below and in Exhibit B that are required to be reported in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States or OMB Bulletin No. 14-02.

INDEPENDENT AUDITORS' REPORT (Continued)

Non-Compliance with Anti-Deficiency Act

In FY 2012, the Commission exceeded an appropriation limit on its Reception and Representation expenses. The Commission submitted the required Anti-Deficiency Act (ADA) letter to the Speaker of the House of Representatives, the Comptroller General of the United States, the President of United States Senate and the President of the United States on November 19, 2013.

In FY 2013 the Commission's Office of Inspector General disclosed in an investigative report that subsequent to FY 1996 employees working under telework status received reimbursement for telecommunication services without the proper certification of adequate safeguards against private misuse and without proper safeguards against private misuse. This has created a per se violation of the Purpose Act and a potential violation of the ADA. However, the Commission has not yet finalized its position regarding the ADA due to the existence of conflicting opinions from the DOJ's Office of Legal Counsel and the Comptroller General of the United States as to whether the situation would qualify as a violation of the ADA.

Management's Responsibilities 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) ensuring compliance with other applicable laws and regulations.

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 and regulations that have a direct effect on the determination of material amounts and disclosures in the financial statements and applicable laws for which OMB Bulletin 14-02 requires testing, and (3) applying certain limited procedures with respect to the MD&A and all other information included with the financial statements.

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 and regulations applicable to the Commission. We limited our tests of compliance to selected provisions of laws and regulations that have a direct effect on the determination of material amounts and disclosures in the financial statements and those required by OMB Bulletin 14-02 that we deemed applicable to the Commission's financial statements for the fiscal year ended September 30, 2013. We caution that noncompliance with

INDEPENDENT AUDITORS' REPORT (Continued)

laws and regulations may occur and not be detected by these tests and that such testing may not be sufficient for other purposes.

Management's Response to Findings

Management's response to the findings identified in our report is presented in Exhibit D. We did not audit the Commission's response and, accordingly, we express no opinion on it.

Status of Prior Year's Control Deficiencies and Noncompliance Issues

We have reviewed the status of the Commission's corrective actions with respect to the findings included in the prior year's Independent Auditors' Report, dated November 16, 2012. The status of prior year findings is presented in Exhibit C.

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

The purpose of the Report on Internal Control over Financial Reporting and the Report on Compliance sections of this report 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

Calverton, Maryland
December 13, 2013

EXHIBIT A
Material Weakness

Prior Period Adjustment – Capitalization of Leasehold Improvements

The Commission entered into a new lease for the facility that is known as 5-RP and made improvements to the property from FY 2009 to FY 2011. The Commission purchased approximately $19.2 million of leasehold improvements that were related to either build out construction of the facility or equipment that has become part of the facility. These disbursements were originally expensed when incurred instead of being recorded as capitalized assets.

In addition, the tenant improvement allowance received from the new lease agreements as well as the leasehold improvements that were purchased through the use of the tenant improvement allowance in the amount of $2.7 million from FY 2009 to FY 2012 were not recorded.

The Commission does not have policies and procedures in place for identifying and recording leasehold improvements and tenant improvement allowances. During FY 2013, the Commission recorded the appropriate assets and adjustments to cumulative results of operations and posted a prior period adjustment which required the restatement of the FY 2012 financial statements.

Statement of Federal Financial Accounting Standards Number 6 states in part, "Property, plant and equipment also include assets acquired through capital leases, including leasehold improvements." In addition, according to OMB Circular A-123, *Management's Responsibility for Internal Control*, "management is responsible for establishing internal control to achieve the objectives of efficient and effective operations, reliable financial reporting, and compliance with applicable laws and regulations. Management shall consistently apply internal control standards to meet each of the internal control objectives and to assess internal control effectiveness."

Recommendations

We recommend that Commission management:

- Improve internal controls over financial reporting and property, plant, and equipment.
- Review new lease agreements and record tenant improvement allowances at the time the agreement is signed.
- Develop comprehensive policies and procedures over accounting and reporting for leases, including tenant improvement allowances, to be consistent with the existing generally accepted accounting guidance related to leases. A checklist for leases should be developed and required to be prepared and maintained for all leases, including equipment leases and GSA subleases. If GSA prepares such a lease analysis, a copy should be obtained, reviewed, and retained by the Commission to ensure proper accounting and reporting.

EXHIBIT B
Compliance Findings

Non-compliance with Anti-Deficiency Act

The Anti-Deficiency Act (ADA) prohibits making or authorizing an expenditure from, or creating or authorizing an obligation under any appropriation or fund in excess of the amount available in the appropriation or fund unless authorized by law.

In FY 2012, the Commission exceeded an appropriation limit on Reception and Representation expenses. The limit placed within the appropriation for FY 2012 was $4,000 and the Commission exceeded that limit by $7,556. This violation occurred when an office within the Commission incurred expenses in excess of the statutory limit when refreshments and gifts for foreign dignitaries were purchased during conferences hosted by the Commission and the proper funds approval process was not followed. In addition, the Commission was relying on a GAO decision that would have permitted the use of appropriated funds to purchase refreshments; however, as part of the investigation into the potential violation, the Commission became aware of an opinion by the U.S. Department of Justice's Office of Legal Counsel (OLC) which interprets the law as prohibiting the use of appropriated funds to purchase refreshments. After consultation with OMB, the Commission determined that they should follow the OLC opinion. The Commission provided the required notification of the violation of the ADA to the Speaker of the House of Representatives, the Comptroller General of the United States, the President of United States Senate and the President of the United States on November 19, 2013.

We also became aware of a second potential violation related to section 620 of Public Law 104-52 which authorizes federal agencies to use appropriated funds to install telephone lines and necessary equipment and to pay monthly charges in any residence of an employee authorized to work at home, provided that the agency certifies that adequate safeguards against private misuse exist and that the service is necessary for direct support of the agency's mission. In FY 2013 the Commission's Office of Inspector General disclosed in an investigative report that subsequent to FY 1996 employees working under telework status received reimbursement for telecommunication services without the proper certification of adequate safeguards against private misuse and without proper safeguards against private misuse. This has created a per se violation of the Purpose Act and a potential violation of the ADA. However, the Commission has not yet finalized its position regarding the ADA due to the existence of conflicting opinions from the DOJ's Office of Legal Counsel and the Comptroller General of GAO as to whether the situation would qualify as a violation of the ADA.

EXHIBIT C
Status of Prior Year Findings

Our assessment of the current status of the recommendations related to findings identified in the prior year audit is presented below:

FY 2012 Finding	*Type*	*FY 2013 Status*
Overstatement of Cumulative Results of Operations for FY 2011	Material Weakness	Resolved in 2013
Omission of FECA Actuarial Liability for FY 2011	Material Weakness	Resolved in 2013
Significant Deficiency over Accounts Payable and Budget Monitoring (comprised of the control deficiencies summarized below) • Oversight over payments processed by service provider • Deficiencies over manual travel authorizations and payments • Errors found in GovTrip application travel payments and GovTrip interface follow-up and review • Lack of centrally billed travel account oversight • Proper accrual of invoices at year-end • Non-performance of budgetary allowance holder reconciliations and follow-up • Allowance plan notice and reconciliation	Significant Deficiency	Substantially resolved, and remaining items downgraded to Management Letter matters
Anti-Deficiency Act Violation	Compliance Finding	Repeat as a Compliance Finding and included in Exhibit B
Noncompliance with Prompt Payment Final Rule	Compliance Finding	Resolved in 2013
Noncompliance with Debt Collection Improvement Act	Compliance Finding	Resolved in 2013

EXHIBIT D

Management's Response to Findings

UNITED STATES
CONSUMER PRODUCT SAFETY COMMISSION
4330 EAST WEST HIGHWAY
BETHESDA, MD 20814

Date: December 13, 2013

To: Christopher Dentel
Inspector General

From: Jay Hoffman
Chief Financial Officer

I am pleased to accept your audit report on the financial statements of the Consumer Product Safety Commission for fiscal year 2013. The agency's efforts and achievements toward improved financial management are clearly reflected in the audit report. The agency is satisfied to have received an unqualified audit opinion on the fiscal year 2013 financial statements. The agency has resolved two prior year material weaknesses pertaining to cumulative results of operations and the Federal Employee Compensation Act (FECA) actuarial liability, and has substantially resolved the significant deficiency over accounts payable and budget monitoring.

I acknowledge your report's conclusion that a material weakness in internal controls existed in the financial reporting process in fiscal year 2013 that resulted in the erroneous reporting of leasehold improvements dating back to fiscal year 2009. Management self-identified the reporting error and disclosed the correction in Note 15, restated the fiscal year 2012 financial statements to correct the error, and properly recorded the leasehold improvements in the fiscal year 2013 financial statements. I recognize the need to improve internal controls over financial reporting and to develop policies and procedures consistent with U.S. generally accepted accounting guidance for leasehold improvements.

I further acknowledge your report's disclosures on non-compliance with laws and regulations. Management has already taken corrective action to remedy the instances of non-compliance by improving the associated internal controls.

I appreciate the efforts and leadership of the Office of the Inspector General (OIG) and of the auditors under contract to the OIG to audit CPSC's financial statements. Please convey my appreciation to your team for the professionalism and cooperation exhibited during this audit.

CPSC Hotline: 1-800-638-CPSC (2772) * CPSC's Web Site: http://www.cpsc.gov

FINANCIAL STATEMENTS

U.S. Consumer Product Safety Commission
Balance Sheets
As of September 30, 2013 and 2012
(in dollars)

	2013	RESTATED 2012
Assets		
Intragovernmental		
Fund Balance with the U.S. Treasury (Note 3)	$ 35,949,114	$ 37,517,927
Other (Note 6)	3,715,068	30,514
Total Intragovernmental	39,664,182	37,548,441
Accounts Receivable (Note 4)	179,669	2,163,089
Property and Equipment, net (Note 5)	22,097,583	24,359,740
Other (Note 6)	16,936	-
Total Assets	$ 61,958,370	$ 64,071,270
Liabilities		
Intragovernmental		
Accounts Payable	$ 490,163	$ 288,888
Employee Benefits (Note 8)	309,877	254,111
Advances from Reimbursable Services	1,093,719	1,156,192
Workers' Compensation (Note 7)	449,731	367,237
Other Liabilities (Note 10)	4,286,029	2,423,745
Total Intragovernmental	6,629,519	4,490,173
Accounts Payable and Others	2,734,901	3,358,775
Salaries and Benefits	1,291,004	1,171,485
Accrued Annual Leave (Note 7)	4,525,353	4,516,119
Custodial Liability (Note 9)	178,050	2,160,339
Workers' Compensation Actuarial (Note 7)	2,240,689	1,829,243
Other Liabilities (Note 10)	3,953	28,158
Total Liabilities	17,603,469	17,554,292
Net Position		
Unexpended Appropriations	31,570,352	31,216,231
Cumulative Results of Operations (Note 14)	12,784,549	15,300,747
Total Net Position	44,354,901	46,516,978
Total Liabilities and Net Position	$ 61,958,370	$ 64,071,270

The accompanying notes are an integral part of these statements.

U.S. Consumer Product Safety Commission
Statement of Net Costs
For the Years ended September 30, 2013 and 2012
(in dollars)

		2013	RESTATED 2012
Net Cost By Goal (Note 2)			
Goal 1-	**Leadership in Safety**	$ 15,095,899	15,649,438
	Less: Earned Revenue	-	-
	Net Costs Goal 1	15,095,899	15,649,438
Goal 2-	**Commitment to Prevention**	22,213,231	25,655,386
	Less: Earned Revenue	-	-
	Net Costs Goal 2	22,213,231	25,655,386
Goal 3-	**Rigorous Hazard Identification**	37,494,149	39,547,666
	Less: Earned Revenue	(2,801,588)	(2,246,344)
	Net Costs Goal 3	34,692,561	37,301,322
Goal 4-	**Decisive Response**	29,923,114	30,178,080
	Less: Earned Revenue	-	-
	Net Costs Goal 4	29,923,114	30,178,080
Goal 5-	**Raising Awareness**	12,753,408	13,635,364
	Less: Earned Revenue	-	-
	Net Costs Goal 5	12,753,408	13,635,364
Total Net Cost of Operations (Note 12)		$ 114,678,213	$ 122,419,590

The accompanying notes are an integral part of these statements.

U.S. Consumer Product Safety Commission
Statement of Changes in Net Position
For the Years ended September 30, 2013 and 2012
(in dollars)

	2013	RESTATED 2012
Cumulative Results of Operations		
Beginning Balances	$ 15,300,747	$ (1,255,425)
Correction of Errors (Note 15)	-	16,493,102
Beginning Balances, as Adjusted	15,300,747	15,237,677
Budgetary Financing sources		
Appropriations Used	107,606,302	118,413,908
Donations and forfeitures of cash and cash equivalents	24,204	-
Other	314,962	-
Other Financing Sources (Non-Exchange)		
Imputed Financing (Note 8)	4,216,547	4,068,752
Total Financing Sources	112,162,015	122,482,660
Net Cost of Operations	(114,678,213)	(122,419,590)
Net Change	(2,516,198)	63,070
Cumulative Results of Operations	12,784,549	15,300,747
Unexpended Appropriations		
Beginning Balance	31,216,231	35,821,485
Budgetary Financing Sources		
Appropriations Received	114,500,000	114,500,000
Other Adjustments	(6,539,577)	(691,346)
Appropriations Used	(107,606,302)	(118,413,908)
Total Budgetary Financing Sources	354,121	(4,605,254)
Total Unexpended Appropriations	31,570,352	31,216,231
Net Position	$ 44,354,901	$ 46,516,978

The accompanying notes are an integral part of these statements.

U.S. Consumer Product Safety Commission
Statement of Budgetary Resources
For the Years ended September 30, 2013 and 2012
(in dollars)

	2013	2012
Budgetary Resources		
Unobligated balance brought forward, October 1	$ 8,303,053	$ 6,896,703
Recoveries of prior year unpaid obligations	2,304,861	1,126,707
Unobligated balance from prior year budget authority, net	10,607,914	8,023,410
Appropriations	108,510,963	114,500,000
Permanently not available	(550,540)	(619,101)
Spending authority from offsetting collections	2,979,464	3,073,983
Total Budgetary Resources (Note 11)	121,547,801	124,978,292
Status of Budgetary Resources		
Obligations incurred (Note 11)	111,200,243	116,675,238
Unobligated balance, end of year:		
Apportioned	258,728	825,759
Unapportioned	10,088,830	7,477,295
Total unobligated balance, end of year	10,347,558	8,303,054
Total Status of Budgetary Resources	121,547,801	124,978,292
Change in Obligated Balance		
Unpaid obligations, brought forward, October 1 (gross)	29,214,873	34,219,400
Obligations incurred	111,200,243	116,675,238
Outlays (gross)	(112,278,904)	(120,558,853)
Change in uncollected customer payments from Federal sources	(229,795)	5,795
Recoveries of prior year unpaid obligations	(2,304,861)	(1,126,707)
Obligated balance, end of year (net)	25,601,556	29,214,873
Budget Authority and Outlays, Net		
Budget authority, gross	111,490,427	117,573,983
Actual offsetting collections	(2,749,669)	(3,079,778)
Change in uncollected customer payments from Federal sources	(229,795)	5,795
Budget authority, net	108,510,963	114,500,000
Outlays, gross	112,278,904	120,558,853
Actual offsetting collections	(2,749,669)	(3,079,778)
Net Outlays	109,529,235	117,479,075
Distributed offsetting receipts	(82,806)	(12,503)
Net Outlays	$ 109,446,429	$ 117,466,572

The accompanying notes are an integral part of these statements.

U.S. Consumer Product Safety Commission
Statement of Custodial Activity
For the Years ended September 30, 2013 and 2012
(in dollars)

	2013	2012
Revenue Activity:		
Sources of Cash Collections:		
Miscellaneous:		
Civil Penalties & Fines	$ 9,067,837	$ 6,099,319
FOIA and Miscellaneous	82,806	14,055
Total Cash Collections	9,150,643	6,113,374
Accrual Adjustments	(1,982,289)	1,789,660
Total Custodial Revenue	7,168,354	7,903,034
Disposition of Collections:		
Transferred to Others:		
Treasury General Fund	11,132,932	1,340,047
(Increase)/Decrease in Amount Yet to be Transferred	-	(5,663,760)
Retained by Reporting Entity	(3,964,578)	(3,579,321)
Retained by Justice Department-Fees	-	-
Total Disposition of Collections	7,168,354	(7,903,034)
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 operation, changes in net position, budgetary resources and custodial activities of the U.S. Consumer Product Safety Commission (CPSC), an independent federal regulatory agency whose mission is 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. 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, Freedom of Information Act fees and other miscellaneous receipts which by law are not retained by the CPSC. The U.S. Department of Treasury automatically transfers all cash balances in these receipt accounts to the general fund of the 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 annually passes appropriations that provide the CPSC with authority to obligate funds for necessary expenses to carry out mandated program activities. The funds appropriated are subject to OMB apportionment of funds in addition to Congressional restrictions on the expenditure of funds. Also, the CPSC places internal restrictions to ensure the efficient and proper use of all funds.

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 generally accepted accounting principles 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 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 the U.S. Treasury

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 on behalf of the Department of Treasury's General Fund. The CPSC's Fund Balance with 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 vendors and current and former employees. Non-entity accounts receivable are for civil monetary penalties imposed as a result of the CPSC's enforcement activities, and for fees imposed for information requested from the public for Freedom of Information Act requests. CPSC holds these nonentity receivables in a custodial capacity. The CPSC calculates the allowance for uncollectible accounts using an analysis of historical collection data.

Property and Equipment

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

Equipment and software with an acquisition value greater than $5,000 and a useful life of two or more years are capitalized using the straight-line method of depreciation. Service lives range from five to twelve years.

Leasehold improvement, furniture, fixture & other equipment with an aggregate acquisition cost of $100,000 and a useful life of two or more years are capitalized using the straight-line method of depreciation. Leasehold Improvement is amortized over the lesser of the leasehold improvement's useful life or the lease term. Furniture, fixture and other equipment service lives range from three to five years.

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 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 CPSC employees and the corresponding agency share for the pension, health and life insurance of the participating employees.

Liabilities Not Covered by Budgetary Resources exists when funding has not yet been made available through Congressional appropriations or reimbursable authority. The CPSC recognizes such liabilities for employee annual leave earned but not taken, amounts billed by the Department of Labor for Federal Employee's Compensation Act (disability) payments and actuarial liability for worker's compensation.

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 leave balances. Sick leave and other leave are expensed as taken.

Employee Health Benefits and Life Insurance

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 matches 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' compensation claims based on data provided from the Department of Labor (DOL). The CPSC uses the DOL's model for estimating a FECA actuarial liability to calculate the amount recorded at year-end.

Contingencies

The CPSC has certain claims and lawsuits pending against it. 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 is 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.

Reclassifications

The program cost and earned revenue in the prior year's statement of net cost have been reclassified to conform to the current year presentation.

Restatements

Certain prior year amounts have been restated to correct errors in the Balance Sheet, Statement of Net Costs and Statement of Changes in Net Positions and notes to the financial statements.

Note 2 – Intra-governmental and Public Costs and Exchange

Intra-governmental costs arise from exchange transactions made between two reporting entities within the federal government in contrast with public costs, which arise from exchange transactions made with a nonfederal entity. Intra-governmental and public costs and exchange revenue for the periods ended September 30, 2013 and September 30, 2012 are as follows:

	Intra-governmental	With the Public	2013 Total
Gross Costs	$ 29,207,102	$ 88,272,699	$117,479,801
Less: Earned Revenue	2,801,588		2,801,588
Net Program Costs	$ 26,405,514	$ 88,272,699	$ 114,678,213

	Intra-governmental	With the Public	**Restated** 2012 Total
Gross Costs	$ 28,348,004	$ 96,317,930	$ 124,665,934
Less: Earned Revenue	2,218,129	28,215	2,246,344
Net Program Costs	$ 26,129,875	$ 96,289,715	$ 122,419,590

Note 3 – Fund Balance with Treasury

The CPSC's funds with the U.S. Treasury consist of only appropriated funds. The status of these funds as of September 30, 2013 and September 30, 2012 is as follows:

	2013	2012
Unobligated Balance		
Available	$ 258,727	$ 825,758
Unavailable	10,088,830	7,477,295
Obligated Balance, Not Yet Disbursed	25,601,557	29,214,874
Total Funds with U.S. Treasury	$ 35,949,114	$ 37,517,927

The obligated balance includes accounts payable and undelivered orders, which have reduced unexpended appropriations but have not yet decreased the cash balance on hand.

Note 4 – Accounts Receivable

The CPSC's receivables as of September 30, 2013 and September 30, 2012 are $179,669 and $2,163,089 respectively. The entity receivable is $1,619 as of September 30, 2013 and $2,750 as of September 30, 2012. The CPSC's non-entity receivables include Civil Fines and Penalties and Freedom of Information Act activity. The CPSC maintains these accounts in a custodial capacity in the total amount of $178,050 as of September 30, 2013 and $2,160,339 as of September 30, 2012. No allowance for uncollectible amounts or related provision for estimated losses has been established for the CPSC's accounts receivables, as these amounts are fully collectible based on historical experience.

Note 5 – Property, Plant and Equipment, Net

The composition of property, plant and equipment (PPE) as of September 30, 2013, is as follows:

Classes of PPE	Acquisition Cost	Accumulated Depreciation	Net Book Value	Service Life in Years
Leasehold Improvement	$ 21,431,964	$ 5,826,949	$ 15,605,015	6-14
Equipment	11,498,498	6,010,635	5,487,863	5-12
Furniture, Fixture & Other Equipment	1,887,734	918,629	969,105	3-5
ADP Software	1,076,817	1,041,217	35,600	5
Total	$ 35,895,013	$ 13,797,430	$ 22,097,583	

The composition of PPE as of September 30, 2012, is as follows:

Classes of PPE	**Restated** Acquisition Cost	**Restated** Accumulated Depreciation	**Restated** Net Book Value	Service Life in Years
Leasehold Improvement	$ 20,355,619	$ 3,555,811	$ 16,799,808	6-14
Equipment	11,160,950	5,033,506	6,127,444	5-12
Furniture, Fixture & Other Equipment	1,611,978	246,400	1,365,578	3-5
ADP Software	1,065,063	998,153	66,910	5
Total	$ 34,193,610	$ 9,833,870	$ 24,359,740	

Note 6 – Other Assets

The composition of other assets account is as follows:

Other Assets	2013	**Restated** 2012
Intragovernmental		
Advances to Other Federal Agency	$ 1,542,918	$ -
Tenant Improvement Allowance	2,172,150	30,514
Total Intergovernmental	3,715,068	30,514
Advances to Employees - travel	16,936	-
Total Other Assets	$ 3,732,004	$ 30,514

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

The Tenant Improvement Allowance (TIA) is the amount available for the CPSC to spend on customization of the leased properties. The TIA is for the lease contracts with the General Services Administration for the CPSC's headquarter offices located in Bethesda, Maryland and the warehouse 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 Advances to Employees - Travel is an advance provided to employees traveling on behalf of the Agency and who do not possess a government issued travel charge card. The balance represents advances made to an employee assigned to an extended assignment in Canada.

Note 7 – Liabilities Not Covered by Budgetary Resources

The liabilities on the CPSC's balance sheet as of September 30, 2013 and September 30, 2012 include liabilities not covered by budgetary resources, which are liabilities for which Congressional action is needed before budgetary resources can be provided. Although future appropriations to fund these liabilities are likely and anticipated, it is not certain that appropriations will be enacted to fund these liabilities. The composition of the liabilities not covered by budgetary resources as of September 30, 2013 and September 30, 2012 is as follows:

Liabilities Not Covered by Budgetary Resources	2013	**Restated** 2012
Intragovernmental		
Worker's Compensation	$ 449,731	$ 367,237
Other Liabilities	4,286,029	2,423,745
Total Intragovernmental	4,735,760	2,790,982
Accrued Annual Leave	4,525,353	4,516,119
Worker's Compensation Actuarial	2,240,689	1,829,243
Other Liabilities	3,953	3,953
Total Liabilities Not Covered by Budgetary Resources	$ 11,505,755	$ 9,140,297

Note 8 – Federal Employee Benefits

Federal Employee benefits consist of the actuarial portions 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) 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 Balance Sheet, 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 the CPSC for the period ended September 30, 2013 and September 30, 2012 is as follows:

	2013	2012
Estimated future pension costs (CSRS/FERS)	$ 1,985,239	$ 1,463,984
Estimated future postretirement health insurance (FEHB)	2,221,140	2,594,382
Estimated future postretirement life insurance (FEGLI)	10,168	10,386
Total Imputed Costs	$ 4,216,547	$ 4,068,752

CPSC employees participate in either the Civil Service Retirement System (CSRS) or the Federal Employees' Retirement System (FERS). Employees hired after December 31, 1983, are covered by FERS and Social Security, while employees hired prior to January 1, 1984, elected to either join FERS or remain in the CSRS. Under CSRS, the CPSC makes matching contributions equal to 7 percent of the employee's gross earnings to the CSRS Retirement and Disability Fund. Employees participating in FERS are covered under the Federal Insurance Contributions Act (FICA) for which the CPSC contributes a matching amount to the Social Security Administration. CPSC contributions are recognized as current operating expenses.

The Thrift Savings Plan (TSP) is a defined contribution retirement savings and investment plan for employees covered by either CSRS or FERS. CSRS participating employees may contribute up to $17,500 for 2013 but do not receive a matching contribution from the CPSC. FERS participating employees may contribute up to $17,500 for 2013. For FERS employees, the CPSC's automatic contribution is 1 percent of the employee's gross pay with additional matching up to a total of 5% of the employee's gross salary. CPSC contributions are recognized as current operating expenses.

Amounts owed to OPM and Treasury as of September 30, 2013 and September 30, 2012, were $309,877 and $254,111, respectively, for CSRS, FERS, FICA, FEHB, and FEGLI contributions and are shown on the balance sheets as an employee benefits liability.

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, 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 Freedom of Information Act (FOIA) requests. FOIA fees are also deposited in the U.S. Treasury and are not available for the CPSC to use. The fund balance with Treasury and uncollected civil penalties and FOIA fees balances in the Treasury miscellaneous receipt funds are recognized as Custodial Liability in the CPSC's Balance Sheets. As of September 30, 2013 and September 30, 2012, the total Custodial Liabilities are $178,050 and $2,160,339 respectively. The revenue and collection activities are presented in the Statement of Custodial Activities.

Note 10 – Other Liabilities

The composition of other liabilities as of September 30, 2013 and September 30, 2012 is as follows:

Other Liabilities	2013	Restated 2012
Intragovermental		
Tenant Improvement Allowance - headquarters	$ 2,141,635	$ -
Tenant Improvement Allowance - research facility	1,960,847	2,219,420
Tenant Improvement Allowance - warehouse	183,547	204,325
Total Intragovernmental	4,286,029	2,423,745
Contingent Liability	3,953	3,953
Gift Fund	-	24,205
Total Other Liabilities	$ 4,289,982	$ 2,451,903

The unfunded intragovernmental tenant improvement allowance (TIA) is payable to General Services Administration (GSA) over the life of the lease. The CPSC's lease agreements with the GSA for the three facilities in Maryland used to house the headquarter offices located in Bethesda, research facility in Rockville, and the warehouse located in Gaithersburg provided an allowance for customization of the leased properties. The TIA is amortized over the life of the lease. The TIA is reduced when amortized amount is billed by GSA and paid by the CPSC.

The amount of $3,953 is a contingent liability due to reasonable possibility of claims against the CPSC related to the Federal Torts Claim Act and the Equal Employment Opportunity Act.

Note 11 – Budgetary Resources

Budgetary resources available to the CPSC during fiscal year 2013 include current year appropriations in the amount of $108,510,963, of which $473,847 shall remain available until September 30, 2014 to implement the Virginia Graeme Baker Pool and Spa Safety Act grant program as provided by section 1405 of Public Law 110–140 (15 U.S.C. 8004), prior year's unobligated balances, reimbursements earned by the CPSC from providing services to other federal entities for a price (reimbursable services), and cost-sharing arrangements with other federal entities.

Reimbursable revenue is the amount of money earned for goods and services provided to other agencies and the public. The CPSC recognizes reimbursable work agreement revenue when earned, i.e. goods have been delivered or services rendered. The CPSC has reimbursable agreements which generated collections from work partners totaling $2,979,464 and $3,073,983 in September 30, 2013 and 2012 respectively. The more prominent of these involved relationships with the Centers for Disease Control and Prevention, National Institute for Occupational Safety and Health, and National Highway Traffic Safety Administration. The majority of these agreements fund the CPSC's injury data collection program.

Comparison of the CPSC's fiscal year 2012 statement of budgetary resources with the corresponding information presented in the 2014 President's Budget is as follows:

	Budgetary Resources	Obligations Incurred
Fiscal year 2012 statement of Budgetary resources	$ 124,978,292	$ 116,675,238
Unobligated balances, beginning of year - (funds activity on expired accounts)	(5,898,703)	
Recovery of prior year unpaid obligation	(1,126,707)	
Obligations incurred - expired years		(423,964)
Permanently not available - (funds activity on expired accounts)	619,101	
Other - rounding in President's Budget	17	(3,274)
2014 Presidents Budget - fiscal year 2012, actual	$ 118,572,000	$ 116,248,000

As the fiscal year 2015 President's Budget will not be published until February 2014, a comparison between the fiscal year 2013 data reflected on the statement of budgetary resources and fiscal year 2013 data in the President's Budget cannot be performed. The CPSC's apportionments fall under Category A, quarterly apportionment for salaries and expenses and Category B, restricted and activity apportionment for IT Modernization projects and reimbursable activities. Apportionment categories of obligations incurred for fiscal years September 30, 2013 and 2012 are as follows:

	2013	2012
Direct Salaries and Expenses- Category A	$ 103,542,324	$ 105,241,707
Direct IT Modernization Project - Category B	4,693,611	8,362,855
Reimbursable Activities - Category B	2,964,308	3,070,676
Total Obligations incurred	$ 111,200,243	$ 116,675,238

Note 12 – Reconciliation of Net Cost of Operations to Budget

Details of the relationship between budgetary resources obligated and the net cost of operation for the fiscal period ending September 30, 2013 and September 30, 2012 is as follows:

	2013	**Restated** 2012
RESOURCES USED TO FINANCE ACTIVITIES		
Budgetary Resources Obligated:		
Obligations Incurred	$ 111,200,243	$ 16,675,238
Less: Spending Authority from Offsetting Collections and Recoveries	5,284,325	4,200,690
Obligations Net of Offsetting Collections and Recoveries	105,915,918	112,474,548
Offsetting Receipts	166	12,503
Net Obligations	105,916,084	112,487,051
Imputed Financing from Cost Absorbed by Others	4,216,547	4,068,753
Total Resources Used to Finance Activities	**110,132,631**	**116,555,804**

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	1,576,354	5,051,784
Budgetary Offsetting Collections that do not Affect Net Cost of Operations	167,322	849,775
Resources that Finance the Acquisition of Assets Capitalized	(1,933,899)	(4,194,649)
Net Decrease in Other Liability - Tenant Improvement Allowance	(279,352)	(262,036)
Net Decrease in Receivables not Generating Resources until Collected	(1,302)	(4,418)
Total Resources Used to Finance Items not Part		
of the Net Cost of Operations	**(470,877)**	**1,440,456**
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	9,233	126,855
Change in Unfunded FECA Liability	493,941	1,927,917
Total Components of Net Cost of Operations That Will Require or		
Generate Resources in Future Periods	503,174	2,054,772
Components not Requiring or Generating Resources in the Current Period		
Depreciation and Amortization	4,489,361	4,189,473
Revaluation of Assets or Liabilities	21,657	28,785
Other Costs That Will Not Require Resources	2,267	(1,849,700)
Total Components of Net Cost of Operations That Will Not Require		
or Generate Resources	4,513,285	2,368,558
Total Components of Net Cost of Operations That		
Will Not Require or Generate Resources in the Current Period	**5,016,459**	**4,423,330**
Net Costs (Revenue) from Operations	**$114,678,213**	**$122,419,590**

Note 13 – Operating Leases

The CPSC leases 3 facilities from the General Services Administration to house the headquarter offices, its research facility and warehouse. These operating lease agreements expire between fiscal year 2013 and fiscal year 2023. Lease costs for fiscal year 2013 and fiscal year 2012 amounted to approximately $7,616,862 and $7,918,888, respectively. Estimated future minimum lease payments for the 3 facilities under the term of the leases are as follows:

Fiscal Year	Estimated Future Lease Payments
2014	$ 5,980,880
2015	7,016,973
2016	7,057,476
2017	7,099,194
2018	7,142,164
2019 and thereafter	24,168,548
Total Estimated Future Lease Payments	$ 58,465,235

Note 14 – 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 years ended September 30, 2013 and 2012 are as follows:

	2013	**Restated** 2012
Investment in leasehold improvements, net	$ 15,254,791	$ 16,799,808
Investment in property and equipment, net	6,842,792	7,559,932
Tenant improvement allowance	2,172,150	30,514
Gift fund and other assets	20,571	50,790
Liabilities not covered by budgetary resources	(11,505,755)	(9,140,297)
Cumulative results of operations	$ 12,784,549	$15,300,747

In fiscal year 2013 the CPSC restated its fiscal year 2012 financial statements to reflect the capitalization of the leasehold improvements completed in fiscal year 2011, which materially affected the cumulative results of operations. The CPSC does not hold title to the leased property where leasehold improvements were done. Upon termination of the lease agreement the total amount of leasehold improvements will be charged to operations and will significantly reduce the balance of cumulative results of operations. See Note 7 for the composition of liabilities not covered by budgetary resources.

Note 15 – Restatements

The CPSC received appropriations in fiscal years 2007, 2008, and 2009 for a total amount of $16.1 million for the laboratory modernization project. On May 12, 2009, the CPSC entered into a lease agreement to house its research facility in Rockville, MD. Construction on the new facility to outfit the CPSC requirement for a new laboratory was completed in May 2011. During fiscal year 2013 the CPSC noted that the leasehold improvements were not represented on the balance sheet. The CPSC gathered the documentation pertaining to these transactions, analyzed the data and found that the construction costs were charged to operations. The CPSC corrected these errors in fiscal year 2013 and restated its fiscal year 2012 financial statements to correct the errors in the accounting of the leasehold improvements, tenant improvement allowance and gift fund.

The Statement of Net Position's cumulative results of operations' beginning balance for the year ended September 30, 2012 was restated. A restatement of $16,493,102 was made to capitalize leasehold improvements, of which $16,372,817 is net of depreciation for amounts not capitalized. A restatement of $120,285 was made to correct an abnormal gift fund balance comprised of a $72,245 correction to unexpended appropriations and a $48,040 correction to other liabilities. The Statement of Net Costs for the year ended September 30, 2012 is also affected in the amount of $600,662 which is the net of capitalization of the leasehold improvements of $1,890,119 offset by depreciation of $2,426,517 and tenant improvement allowance payment of $262,036 originally charged to operations offset by $326,300 depreciation. The Balance Sheet as of September 30, 2012 was also affected by non-capitalization of the leasehold improvements in the amount of $18,165,385 of which $16,372,817 for leasehold improvements offset by depreciation of $536,400 and $2,328,968 for expended tenant improvement allowance. The unexpended tenant improvement allowance balance was also recorded in the other asset section of the balance sheet in the amount of $30,514. Please see Other Supplementary Information for details of the financial line items restatement.

OTHER SUPPLEMENTARY INFORMATION

U.S. Consumer Product Safety Commission
Restatement of Balance Sheet
As of September 30, 2012
(in dollars)

	AUDITED 2012	CORRECTION OF ERROR	RESTATED 2012
Assets			
Intragovernmental			
Fund Balance with the U.S. Treasury (Note 3)	$ 37,517,927		$ 37,517,927
Other (Note 6)	-	30,514	30,514
Total Intragovernmental	37,517,927		37,548,441
Accounts Receivable (Note 4)	2,163,089		2,163,089
Property and Equipment, net (Note 5)	6,194,354	18,165,386	24,359,740
Other (Note 6)	-		-
Total Assets	$ 45,875,370		$ 64,071,270
Liabilities			
Intragovernmental			
Accounts Payable	$ 288,888		$ 288,888
Employee Benefits (Note 8)	254,111		254,111
Advances from Reimbursable Services	1,156,192		1,156,192
Workers' Compensation (Note 7)	367,237		367,237
Other Liabilities (Note 10)	-	2,423,745	2,423,745
Total Intragovernmental	2,066,428		4,490,173
Accounts Payable and Others	3,358,775		3,358,775
Salaries and Benefits	1,171,485		1,171,485
Accrued Annual Leave (Note 7)	4,516,119		4,516,119
Custodial Liability (Note 9)	2,160,339		2,160,339
Workers' Compensation Actuarial (Note 7)	1,829,243		1,829,243
Other Liabilities (Note 10)	76,198	(48,040)	28,158
Total Liabilities	15,178,587		17,554,292
Net Position			
Unexpended Appropriations	31,288,476	(72,245)	31,216,231
Cumulative Results of Operations (Note 14)	(591,693)	15,892,440	15,300,747
Total Net Position	30,696,783		46,516,978
Total Liabilities and Net Position	$ 45,875,370		$ 64,071,270

U.S. Consumer Product Safety Commission
Restatement of Statement of Net Cost
For the Year ended September 30, 2012
(in dollars)

	AUDITED 2012	CORRECTION OF ERROR	RESTATED 2012
Net Cost By Goal (Note 2)			
Goal 1- Leadership in Safety	$ 15,529,306	120,132	$ 15,649,438
Less: Earned Revenue	-		-
Net Costs Goal 1	15,529,306		15,649,438
Goal 2- Commitment to Prevention	25,535,254	120,132	25,655,386
Less: Earned Revenue	-		-
Net Costs Goal 2	25,535,254		25,655,386
Goal 3- Rigorous Hazard Identification	39,427,534	120,132	39,547,666
Less: Earned Revenue	(2,246,344)		(2,246,344)
Net Costs Goal 3	37,181,190		37,301,322
Goal 4- Decisive Response	30,057,947	120,133	30,178,080
Less: Earned Revenue	-		-
Net Costs Goal 4	30,057,947		30,178,080
Goal 5- Raising Awareness	13,515,231	120,133	13,635,364
Less: Earned Revenue	-		-
Net Costs Goal 5	13,515,231		13,635,364
Total Net Cost of Operations (Note 12)	$ 121,818,928	600,662	$ 122,419,590

U.S. Consumer Product Safety Commission
Restatement of Statement of Changes in Net Position
For the Year ended September 30, 2012
(in dollars)

	AUDITED 2012	CORRECTION OF ERROR	RESTATED 2012
Cumulative Results of Operations			
Beginning Balances	$ (1,255,425)		$ (1,255,425)
Correction of Errors (Note 15)	-	16,493,102	16,493,102
Beginning Balances, as Adjusted	(1,255,425)		15,237,677
Budgetary Financing sources			
Appropriations Used	118,413,908		118,413,908
Donations and forfeitures of cash and cash equivalents	-		-
Other	-		-
Other Financing Sources (Non-Exchange)			
Imputed Financing (Note 8)	4,068,752		4,068,752
Total Financing Sources	122,482,660		122,482,660
Net Cost of Operations	(121,818,928)	(600,662)	(122,419,590)
Net Change	663,732		63,070
Cumulative Results of Operations	(591,693)	15,892,440	15,300,747
Unexpended Appropriations			
Beginning Balance	35,821,485		35,821,485
Budgetary Financing Sources			
Appropriations Received	114,500,000		114,500,000
Other Adjustments	(619,101)	(72,245)	(691,346)
Appropriations Used	(118,413,908)		(118,413,908)
Total Budgetary Financing Sources	(4,533,009)		(4,605,254)
Total Unexpended Appropriations	31,288,476		31,216,231
Net Position	$ 30,696,783	15,820,195	$ 46,516,978

REQUIRED SUPPLEMENTARY INFORMATION

Statement of Budgetary Resources

The statement is prepared on a total Commission basis.

Statement of Custodial Activity

The Commission collects civil penalties and fines, Freedom of Information Act and miscellaneous collections, and Department of Justice fees.

Other Accompanying Information

INSPECTOR GENERAL'S MANAGEMENT CHALLENGES REPORT

The Reports Consolidation Act requires the Office of the Inspector General (OIG) to identify the most serious management and performance challenges facing the agency and the agency's progress toward meeting these challenges. These challenges may be grouped into the following categories:

- Budget Uncertainty
- Information Technology, Cyber Security
- Financial Management, Adequacy of Internal Controls

Budget Uncertainty

It would not have been reasonable to assume that the Consumer Product Safety Commission (CPSC) could take on the new challenges required of it by the Consumer Product Safety Improvement Act (CPSIA) with the same level of resources that the CPSC has had to work with historically. Nor did Congress expect the agency to do so. To provide the resources necessary to meet these new responsibilities and to enforce the newly created statutory requirements, the CPSIA authorized, but did not appropriate, increased funding levels for the CPSC annually, culminating in an authorization level of $136 million in FY 2014. However, in the current budget environment, it is all but certain that in the upcoming fiscal year, the agency's overall budget will actually continue to decrease to a figure substantially less than originally contemplated by the CPSIA drafters. This puts the agency in the position of having acquired new responsibilities that are in large measure fixed[1] and at the same time facing a shrinking level of resources to draw upon to meet these responsibilities.

This challenge is further complicated by the budget uncertainty facing the federal government as a whole, and the CPSC, in particular. Because no budget, as yet, has been passed, it is unclear what resources the agency will have available to meet its statutory responsibilities. At the time of this writing, the agency is operating under a continuing resolution until January 15, 2013. After that date, it is unclear at what level the agency will be funded. This uncertainly regarding budgetary resources creates a challenge to senior management in planning how best to deploy their resources to meet agency goals.

Information Technology Security

The CPSC will not be able to meet its current workload and the additional tasks projected for the future without expanding the agency's use of IT resources to leverage its limited manpower. One of the key management challenges facing the CPSC is how to use this technology best to meet the agency's increasing workload while still maintaining adequate IT security.

In assessing the CPSC's efforts to meet IT security challenges, it is worthwhile to look at the agency's effort's to comply with the three cyber security priorities established by President Obama. The administration's three priority areas for improvement within federal cyber security are: (1) Continuous Monitoring of Federal Information Systems; (2) Trusted Internet Connection (TIC) capability and use; and (3) Strong authentication using government issued identity credentials, such as PIV (Personnel Identity Verification) and CAC (Common Access Cards).

1) Continuous Monitoring: The agency's information system monitoring and reporting capabilities have substantially improved since FY 2010. Management implemented several new tools in FYs 2011, 2012, and 2013. Although management has not fully optimized these tools, the system reporting achievable now is far greater than the reporting was a year ago; and management has shown a commitment to continuing to improve the agency's system reporting capabilities. Also, in FY 2012,

[1] Some, but not all, of the new requirements are predicated on Congress appropriating adequate funding.

management assigned an IT Security Specialist to the operations team to assist in the implementation, optimization, and use of these tools. Management then added a second resource to assist with these tasks in FY 2013. The security team is now providing monthly reports to senior management, outlining the known risks to agency IT resources. However, although the technical security monitoring has improved, management's ability to maintain the required security documentation diminished in FY 2013. This resulted from the loss of a security specialist in EXIT's policy and planning area in July 2013.

2) Trusted Internet Connection Capabilities and Traffic Consolidation: Management partially implemented the Trusted Internet Connection (TIC) in July 2011. This is an effort to route all of the Federal IT traffic through one connection. This aids in monitoring and control. The CPSC has done a good job of routing IT traffic from the CPSC Headquarters in Bethesda, MD, through the TIC; however, the IT traffic generated by "remote" users (*i.e.*, the people using the Virtual Privacy Network (VPN) to log in) is still not routed through the TIC.

3) Strong Authentication Using HSPD-12 Personal Identity Verification Cards for Logical Access. Multifactor authentication (ID Card and Password) are now being required to access the Virtual Private Network (VPN) for a majority of the CPSC's users. However, multifactor authentication is still not required of all users, and the agency has faced challenges in maintaining control over access given to contractors, departing employees, and others. Although the CPSC's compliance in this area is not at 100 percent, the agency is exceeding Homeland Security's baseline standards.

Other challenges facing the CPSC, as noted in the current and past FISMA reviews, include, but are not limited to, the following:

1) Management has not updated the security documentation for the agency's major applications or reaccredited these systems in FY 2013.

2) Management has not fully implemented the NIST SP 800-37, Risk Management Framework.

3) Management has not accredited the following major CPSC applications: PRISM, FOIAExpress, and Integrated Field System (IFS).

4) Management has not performed an assessment to identify all major and minor agency applications; it is particularly important that management assess the applications associated with the Office of Epidemiology because of the potential for these applications to contain Personally Identifiable Information.

5) The agency had not formalized or tested a Business Impact Analysis (BIA), Business Continuity Plan (BCP), Disaster Recovery (DR) Plan, Continuity of Operations Plan (COOP), or Information System Contingency Plan (ISCP) for agency systems.

6) The most recently completed FISMA review noted 65 findings, 12 of which were high risk (the previous year's review found 65, with 15 at high risk.)[2]

Adequacy of Internal Controls in the Area of Financial Management

Internal controls are processes designed to provide reasonable assurance regarding the achievement of objectives in the following categories: (a) effectiveness and efficiency of operations; (b) reliability of financial reporting; and (c) compliance with laws and regulations. This management challenge has been cited in the past and has led to significant deficiencies uncovered in recent audits of the agency's financial statements. To address this challenge, in 2012, the agency undertook a comprehensive

[2] This is based on the FY 2012 FISMA Review. The FY 2013 FISMA Review had not been completed at the time this document was drafted.

approach to strengthen its control structure and establish the appropriate management tone, competence, and attention to the identified financial challenges. This work continued into 2013. The OIG acknowledges management's work, supported by an outside financial audit contractor, to conduct a comprehensive assessment of internal control over financial management; develop cycle memoranda and control matrices; test and evaluate key controls; and develop and implement corrective actions to address some identified control gaps. As a result, the CPSC has made progress in resolving internal control findings from this office and has resolved a number of significant deficiencies from earlier audits.

However, although much improvement has been made in the area of internal control, recent audits of the Purchase and Travel Card programs found that work remains to be accomplished. Both audits found a number of internal control weaknesses and a lack of compliance with a number of the government-wide policies and procedures governing the Purchase and Travel Card programs.

Prior to our audit, the CPSC directive dealing with the Purchase Card program had not been updated since 2004.[3] The CPSC Directive on the Travel Card program was last formally updated in 1996.[4]

Our audits found that both the Travel and Purchase Card programs lacked adequate internal controls. The OIG found problems with the design, implementation, and/or effectiveness of the internal controls tested. We identified internal control weaknesses in multiple areas of both programs, including the following: cardholders and authorizing officials not following the internal control guidance provided by the Office of Financial Management; the Office of Financial Management not realizing/correcting the situation; one office within the CPSC, without authorization, elected to create its own internal control structure over the Purchase Card program and followed its own "rogue" procedures, rather than the procedures mandated by the agency; the internal controls in place failed to detect or prevent the improper/unallowable expenditure of funds on travel and purchases of certain goods and services.

[3] The relevant directive has since been updated.
[4] The Directive has been rewritten, and although the directive has not yet been implemented, the Directive is in the final review process as of the time of this writing.

AGENCY'S RESPONSE TO MANAGEMENT CHALLENGES REPORT

The Office of the Inspector General (OIG) identified three management and performance challenges faced by the CPSC:

- Budget uncertainty
- Information technology, cyber security
- Financial management, adequacy of internal controls

The product safety environment has evolved since the passage of the Consumer Product Safety Improvement Act (CPSIA) of 2008. The impact to the CPSC and the resulting challenges to the agency have stemmed from the growth of imported products and the heightened awareness of safety hazards by American consumers. The CPSC concurs with the identification of these management challenges.

Budget Uncertainty

The CPSC management is cognizant that budget uncertainty exists and that the agency must continue to adapt to the changing budget environment to meet its statutory responsibilities. Budget uncertainty permeates across the federal government and is not unique to the CPSC. The CPSC management is working to minimize the risks created by budget uncertainty through improved planning, prioritization, and analysis.

Information Technology, Cyber Security

The Office of Information Technology (EXIT) has reviewed the OIG's Management Challenges Report (Report) and agrees with the findings. EXIT lost staff resources in 2013 and is currently in the process of recruiting to replace those resources. Once staffed, EXIT will work to address the findings in the Report regarding accreditation of major CPSC applications, assessments to identify all major and minor agency applications, and updating security documentation.

EXIT acknowledges the finding that IT traffic generated by "remote" users is not routed through the TIC but formally designated this issue as an "acceptable risk" in 2011 due to extenuating circumstances. In order to comply with this requirement, remote CPSC users connecting to the HQ GSS LAN remotely would be forced to route all general internet traffic back through the HQ internal network. This would require an increase of the HQ network's internet bandwidth. The telecommunications provider does not currently provide a path that would allow the agency to gradually increase its internet bandwidth. Therefore, this would require the agency to acquire a service that would cost more than twice that of the current service level.

As EXIT transitions to a virtual desktop environment, this weakness will be tempered by "compensating controls." Remote users will no longer have direct access to the CPSC internal network, instead users will only interface with an application server which will reduce remote access threat.

In addition to adding Federal IT security resources in 2014, EXIT has requested funding to address the Report's findings to fully implement the NIST SP 800-37, Risk Management Framework and for development and implementation of a Disaster Recovery/Continuity Plan.

Regarding the Report's findings on multifactor authentication, EXIT currently has no capability to enforce multifactor authentication for privileged access to enterprise agency systems. This issue will be addressed by another authentication technology (i.e., RSA token) which will be implemented in conjunction with the transition to the virtual desktop environment.

In addition, regarding the Report's findings on the most recently completed FISMA review, EXIT plans to address the issue by adding the findings to the agency's FISMA Plan of Action and Milestone tracking system. Each item will be prioritized and addressed based on availability of resources.

Financial Management, Adequacy of Internal Controls

The CPSC takes responsibility for stewardship of the resources entrusted to the agency seriously and continues to make significant progress toward resolving identified deficiencies. In FY 2013, the CPSC continued to improve its internal control environment and resolved the only significant deficiency in financial reporting and controls identified during the FY 2012 financial statement audit. Specifically, the CPSC implemented an internal control framework developed during FY 2012 and conducted a thorough assessment of 116 internal controls over financial reporting. The approach includes reviewing and updating cycle memoranda, developing and reviewing internal control matrices, testing and evaluating key internal controls, and developing and implementing corrective action plans across the CPSC's nine financial cycles. Also, a review of complementary controls was completed to help ensure integrity of the accounting processes between the CPSC and its accounting service provider, the Department of Transportation.

Significant improvements have been made to the CPSCs' travel and purchase card programs and directives during FY 2013. A revised purchase card directive was issued in FY 2013 and extensive training was conducted for the agency's purchase card holders. Through better use of data analytics, the CPSC is able to identify and correct unauthorized or problematic purchase card transactions. The agency is actively updating the travel program and travel charge card directives to address identified control weaknesses and achieve compliance with government-wide policies and regulations. In addition to new policies and procedures, the CPSC conducted training for CPSC travelers on travel regulations and on proper use of the automated travel reservation and reimbursement system. Internal controls for the travel and purchase card programs have been enhanced and tested by management consistent with the OMB Circular No. A-123 Appendix A.

U.S. Consumer Product Safety Commission
Schedule of Spending
For the Years Ended September 30, 2013 and 2012
(in dollars)

	2013	2012
What Money is Available to Spend?		
Total Resources	$ 121,547,800	$ 124,978,292
Less Amount Available but Not Agreed to be Spent	(258,727)	(825,759)
Less Amount Not Available to be Spent	(10,088,830)	(7,477,295)
Total Amounts Agreed to be Spent	$ 111,200,243	$ 116,675,238
How was the Money Spent?		
Personnel Compensation and Benefits		
Personnel Compensation	$ 54,239,102	$ 54,794,875
Personnel Benefits	15,451,803	15,453,884
Contractual Services and Supplies		
Travel & Transportation of Persons	1,231,387	1,298,370
Transportation of Things	59,567	94,437
Rent, Utilities, Other	9,332,174	10,091,849
Services	28,043,204	31,386,629
Supplies & Materials	831,141	790,010
Acquisition of Assets		
Equipment	1,942,480	2,769,956
Other		
Insurance Claims & Indemnities	19,890	11,880
Other	49,495	(16,652)
Tota Total Amounts Agreed to be Spent	$ 111,200,243	$ 116,675,238

SUMMARY OF FINANCIAL STATEMENT AUDIT AND MANAGEMENT ASSURANCES

Summary of Financial Statement Audit					
Audit Opinion	Unqualified				
Restatement					
	Beginning Balance	**New**	**Resolved**	**Consolidated**	**Ending Balance**
Material Weaknesses	0	0	0	0	0
Total Material Weaknesses	0	0	0	0	0

Summary of Management Assurances						
Effectiveness of Internal Control over Financial Reporting (FMFIA § 2)						
Statement of Assurance	Unqualified					
	Beginning Balance	**New**	**Resolved**	**Consolidated**	**Reassessed**	**Ending Balance**
Material Weaknesses	0	1	0	0	0	1
Total Material Weaknesses	0	1	0	0	0	1
Effectiveness of Internal Control over Operations (FMFIA § 2)						
Statement of Assurance	Unqualified					
	Beginning Balance	**New**	**Resolved**	**Consolidated**	**Reassessed**	**Ending Balance**
Material Weaknesses	0	0	0	0	0	0
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**
Non-Conformances	0	0	0	0	0	0
Total Non-Conformance	0	0	0	0	0	0

Summary of Material Weakness in Internal Control Over Financial Reporting

The CPSC acknowledges one material weakness in internal control over financial reporting pertaining to leasehold improvements. The CPSC incorrectly reported leasehold improvements as an expense, rather than properly capitalizing the costs. The prior years' recording errors were corrected by restating the FY 2012 financial statements (see Note 15). To correct the material weakness, the CPSC will update the Property Management directive and implement associated standard operating procedures. The CPSC will also train affected personnel on the new policies and procedures.

Summary of Significant Deficiencies	
Significant Deficiencies Areas	***Corrective Action Status***
2012 Financial Statement Audit	
Accounts Payable (AP) & Budget Monitoring	Remediated

APPENDIX A: STATUTORY AUTHORITY

Provided below is a listing of federal statutes applicable to the CPSC. Links to these statutes are available on the CPSC's website at www.cpsc.gov under *Regulations, Laws & Standards.*

CPSIA	P.L. 112-28 Amends the CPSIA Consumer Product Safety Improvement Act
CGBCPA	Children's Gasoline Burn Prevention Act
CPSA	Consumer Product Safety Act
CSPA	Child Safety Protection Act
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 B: ACRONYM LISTING

AFR	Agency Financial Report
ANPR	Advance Notice of Proposed Rulemaking
APR	Annual Performance Report
ATV	All-Terrain Vehicle
BCP	Business Continuity Plan
BIA	Business Impact Analysis
BPA	Blanket Purchase Agreement
CAC	Common Access Cards
CBP	U.S. Customs and Border Protection
COOP	Continuity of Operations Plan
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
CTAC	Commercial Targeting and Analysis Center
DA/TR	Data analysis/technical review
DOT	Department of Transportation
DR	Disaster Recovery
EHS	Environmental, Health, and Safety
ESC	Enterprise Services Center
EXIT	Office of Information Technology
FFMIA	Federal Financial Management Improvement Act of 1996
FMFIA	Federal Managers' Financial Integrity Act of 1982
FOIA	Freedom of Information Act
FR	Final Rule
FHSA	Federal Hazardous Substances Act
FTE	Full-Time Equivalent
FY	Fiscal Year
GAO	U.S. Government Accountability Office
GPRA	Government Performance and Results Act
GSA	U.S. General Services Administration
IFS	Integrated Field System
IG	Inspector General
IPERA	Improper Payments Elimination and Recovery Act
IRB	Investment Review Board
ISCP	Information System Contingency Plan
IT	Information Technology
ITDS	International Trade Data System
MTIPS	Managed Trusted Internet Protocol Service
NEISS	National Electronic Injury Surveillance System
NGO	Nongovernmental Organization
NNI	National Nanotechnology Initiative
NPR	Notice of Proposed Rulemaking
NPTEC	National Product Testing and Evaluation Center
NR	Notice of Requirements
NSN	Neighborhood Safety Network
OGC	Office of the General Counsel

OIG	Office of Inspector General
OPM	Office of Personnel Management
OMB	Office of Management and Budget
PIV	Personal Identity Verification
POAM	Plan of Action and Milestones
PSSA I&E	Pool and Spa Safety Act Information and Education
RAM	Risk Assessment Methodology
SDO	Standards Development Organization
SES	Senior Executive Service
SSP	Shared Service Provider
TIC	Trusted Internet Connection
VGB Act	Virginia Graeme Baker Pool and Spa Safety Act
VPN	Virtual Privacy Network
XRF	X-Ray Fluorescence