



Agency Financial Report Fiscal Year 2016

U.S. Consumer Product Safety Commission



November 15, 2016

ABOUT THE CPSC

The U.S. Consumer Product Safety Commission (CPSC) is an independent federal regulatory agency, created in 1972 by the Consumer Product Safety Act (CPSA). In addition to the CPSA, as amended by the Consumer Product Safety Improvement Act of 2008 (CPSIA) and Public Law No. 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 (VGB Act), the Children's Gasoline Burn Prevention Act, and the Child Nicotine Poisoning Prevention Act (CNPP Act).

The CPSC has jurisdiction over thousands of types of consumer products used in and around the home, 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.*

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



From left to right: Commissioner Robert Adler, Commissioner Anne Marie Buerkle, Chairman Elliot Kaye, Commissioner Marietta Robinson, and Commissioner Joseph Mohorovic

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

ABOUT THIS REPORT

The purpose of the U.S. Consumer Product Safety Commission's Fiscal Year (FY) 2016 *Agency Financial Report* (AFR) is to assist Congress, the President, and the American people in assessing the agency's stewardship of the resources it is provided. This annual report is required by legislation and complies with the requirements of the Office of Management and Budget's Circulars A-11, *Preparation, Submission, and Execution of the Budget*, and A-136, *Financial Reporting Requirements*.

The AFR is organized into four major sections:

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

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

Other Information—This section provides the Office of the Inspector General's (OIG) Management and Performance Challenges, the schedule of spending (SOS), a summary of the financial statement audit and management assurance, and improper payments reporting details.

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

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

- *Federal Managers' Financial Integrity Act of 1982*
- *Accountability of Tax Dollars Act of 2002*
- *Government Management Reform Act of 1994*
- *Federal Financial Management Improvement Act of 1996*
- *Reports Consolidation Act of 2000*
- *Improper Payments Elimination and Recovery Act of 2010*
- *Government Performance and Results Modernization Act of 2010*

For the fourth consecutive year, the CPSC is producing an AFR, with a primary focus on financial results, and an Annual Performance Report (APR),* which focuses on strategic goals and performance results that is published in February. Electronic copies will be available at this website shortly after publication of each report: <https://www.cpsc.gov/About-CPSC/Agency-Reports/Performance-and-Budget/>.



* The FY 2016 APR is produced in conjunction with the FY 2018 President's Budget Request and it provides more detailed performance information and analysis of performance results. The APR will be issued in fiscal year 2017, and the exact timing will be announced by OMB.

CERTIFICATE OF EXCELLENCE IN ACCOUNTABILITY REPORTING

The CPSC's FY 2015 AFR received the Certificate of Excellence in Accountability Reporting (CEAR) from the Association of Government Accountants. The CPSC was the only first-time winner for an FY 2015 AFR. The award is presented to federal government agencies whose annual reports achieve the highest standards demonstrating accountability and communicating results.



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MESSAGE FROM THE CHAIRMAN

During the past year, the dedicated and talented staff at the U.S. Consumer Product Safety Commission (CPSC) has diligently upheld the agency's core mission of protecting the public against unreasonable risks of death and injury from consumer products. These efforts have resulted in fewer dangerous products reaching store shelves and our homes, and strengthened safety standards across many product categories, especially those affecting children. The scope of the agency's work is especially impressive when assessed against our limited funding level. With that in mind, I am pleased to present to you the CPSC's Agency Financial Report (AFR) for Fiscal Year (FY) 2016. I would like to highlight some of the agency's achievements during the past year.



CPSC's achievements are due primarily to our excellent staff. The CPSC is fortunate to have a team of motivated, talented and deeply committed public servants who come to work every day wanting to make a difference by improving product safety for consumers. Preventing safety hazards from occurring is the best way to keep consumers safe. We work hard to prevent hazardous products from reaching consumers. However, keeping dangerous products out of the hands of consumers is a serious challenge, considering that product manufacturing, distribution and sales often happen simultaneously on a global scale. Although prevention is our preferred approach to keep consumers safe, we may not always be able to keep hazardous consumer products out of the marketplace and out of the hands of consumers. Therefore, we strive to respond quickly to address issues with hazardous consumer products, both in the marketplace and with consumers. The CPSC works to monitor actively and identify more rapidly consumer products ripe for enforcement actions. Once identified, we work diligently to minimize further consumer exposure to the product hazard. To make sound safety choices, manufacturers, importers, retailers, foreign partners, and especially consumers, need to hear from us in a clear and timely manner. We design CPSC programs to communicate useful information quickly and effectively to inform better decisions.

In 2016, CPSC engineers worked tirelessly to perform failure analysis on hoverboards that burst into flames and caused burn injuries and hundreds of thousands of dollars in property losses. Our attorneys in CPSC's Office of the General Counsel negotiated substantial, but fair and appropriate, civil penalty agreements, including one for more than \$15 million, the highest civil penalty in the history of the agency. Whether it was through our Anchor It! campaign materials or our "*Pool Safely*" public service announcements, which aired during the 2016 Summer Olympics, the agency achieved billions of media impressions for an array of safety messages. CPSC staff worked to enhance the effectiveness of recalls by requiring companies to employ more social media resources to spread the word about recalled products to consumers. The CPSC provided numerous foreign training opportunities to our stakeholders in major manufacturing centers worldwide.

The CPSC provides a strong return on taxpayers' investment with our modest budget. In addition, we are very passionate about our mission, as evidenced by the achievements highlighted here. In the past year, CPSC developed a new 2016-2020 Strategic Plan. The new plan, described in the Looking Ahead section on pages 20-21, will position the CPSC to be an even more effective and impactful force for consumer product safety.

In closing, I want to emphasize the agency's commitment to high standards of financial operations, reporting, and accountability, and our dedication to the continued improvement of our financial management and internal controls. The Message from our Chief Financial Officer in this report underscores our improvements in FY 2016 and includes the results of the independent audit of our FY 2016 Financial Statements.

Thank you for your attention to this report. We look forward to another successful year working to protect consumers all across the country.



Elliot F. Kaye
Chairman
November 14, 2016

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MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

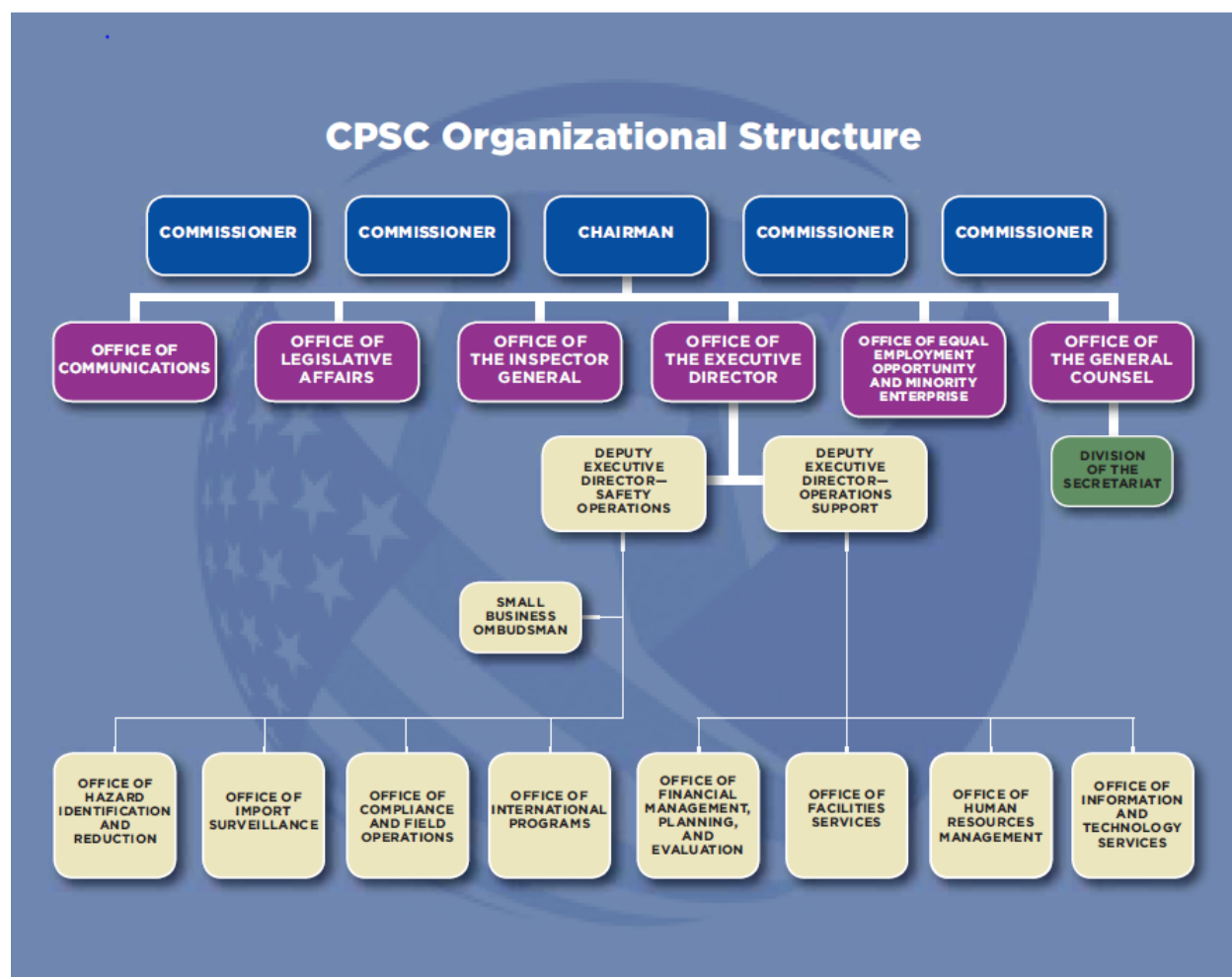


Management's Discussion and Analysis (MD&A)

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

CPSC 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 chart depicts the organizational structure of the CPSC in FY 2016:



FY 2011–FY 2016 Strategic Plan Summary

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

The CPSC's Mission Statement

Protecting the public against unreasonable risks of injury from consumer products through education, safety standards activities, regulation, and enforcement.

Strategic Goal 1: Leadership in Safety

Take a leadership role in identifying and addressing the most pressing consumer product safety priorities and mobilizing action by our partners.

Strategic Objectives

- 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.

Strategic Goal 2: Commitment to Prevention

Engage public and private sector stakeholders to build safety into consumer products.

Strategic Objectives

- 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.

Strategic Goal 3: Rigorous Hazard Identification

Ensure timely and accurate detection of consumer product safety risks to inform agency priorities.

Strategic Objectives

- 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.

Strategic Goal 4: Decisive Response

Use the CPSC's full range of authorities to quickly remove hazards from the marketplace.

Strategic Objectives

- 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 effectiveness 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.

Strategic Goal 5: Raising Awareness

Promote a public understanding of product risks and CPSC capabilities.

Strategic Objectives

- 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.

Performance Summary: An Overview

During FY 2016, the CPSC tracked 36 performance measures. The CPSC met the performance targets for 33 performance measures (92 percent) and did not meet the performance targets for three performance measures (8 percent). The FY 2016 results for the key performance measures are organized by the CPSC Strategic Goals (Figure 2) and are categorized by CPSC organization (Figure 3).

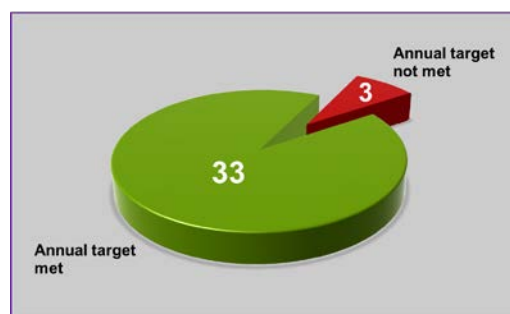


Figure 1: A snapshot of the CPSC's FY 2016 key performance measures

Figure 2: Summary of FY 2016 Results for Key Performance Measures by Strategic Goal

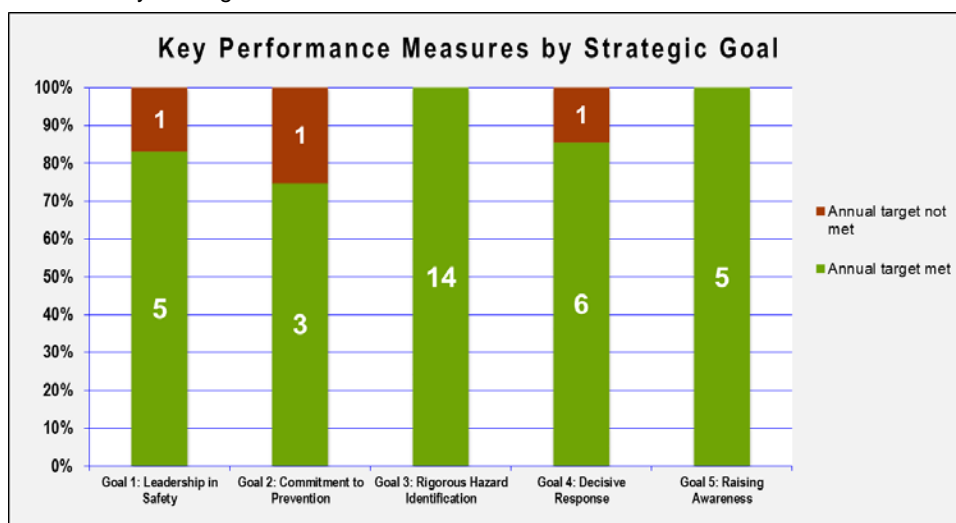
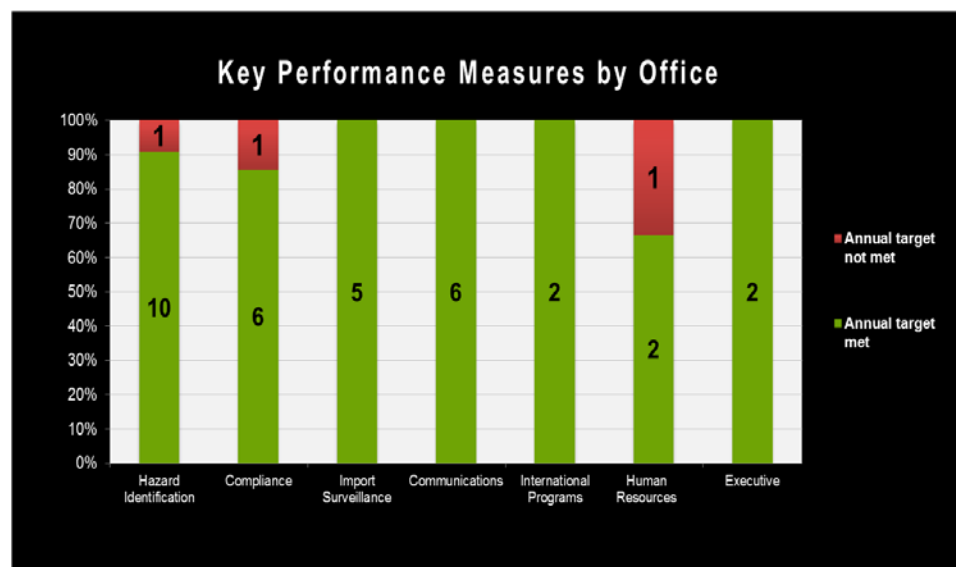


Figure 3: Summary of FY 2016 Results for Key Performance Measures by Office



Key Performance Measures

ID	Program	Performance Measure Statement	FY 2014 Actual	FY 2015 Actual	FY 2016 Target	FY 2016 Actual	FY 2016 Target Met?
Strategic Goal 1: Leadership in Safety							
							✓
1.2.4	Executive	Number of collaborations undertaken with domestic nongovernment organizations such as trade associations, universities, or federations	--	2	2	3	✓
1.2.5	International	Number of training or outreach seminars for foreign manufacturers and overseas U.S. importer representatives conducted by the CPSC staff	--	--	13	22	✓
1.6.1	Personnel	Employee retention rate	81%	87%	85%	70%	✗
1.6.2	Personnel	Average hiring time (recruitment time using U.S. Office of Personnel Management's (OPM) End-to-End hiring process) (days)	78	74	80	76	✓
1.6.3	Personnel	Training participation rate	93%	90%	90%	92.8%	✓
Strategic Goal 2: Commitment to Prevention							
							✓
2.1.4	Hazard	Number of voluntary standards activities in which the CPSC staff actively participates	--	81 ¹	71	71	✓
2.2.1	Hazard	Number of candidates for rulemaking prepared for Commission consideration	10 ²	20 ³	22	10 ⁴	✗
2.3.1	Executive	Number of domestic training activities made available to industry stakeholders	23	7	7	10	✓
Strategic Goal 3: Rigorous Hazard Identification							
							✓
3.1.2	Hazard	Percentage of consumer product-related injury cases correctly captured at NEISS hospitals	91%	91.6%	90%	91%	✓
3.2.1	Hazard	Time from incident received to integrated team adjudication of incident report (business days)	3.4	6.4	10	7.4	✓
3.2.2	Hazard	Percentage of priority import regulated samples (excluding fireworks) tested within 30 days of collection	98.8%	98.6%	85%	99.6%	✓
3.2.3	Hazard	Percentage of priority import fireworks samples tested within 60 days of collection	100%	98.6%	90%	95.8%	✓
3.2.5	Hazard	Percentage of Section 15 Product Safety Assessment requests that are completed within the Hazard Level Completion time assigned	--	92%	90%	94.3%	✓
3.2.6	Hazard		--	--	85%	100%	✓

¹ CPSC staff actively participated in 79 of the originally planned 81 voluntary standards, plus an additional two voluntary standards that emerged as priorities during FY 2015.

² Correction: The FY 2014 Actual should be 10 rather than nine that were reported initially on page 4 of the FY 2014 AFR (November 2014).

³ CPSC staff prepared, for Commission consideration, 14 of the original 20 planned candidates for rulemaking, plus an additional six candidates for rulemaking.

⁴ CPSC staff prepared 10 rulemaking packages for Commission consideration: nine were from the original 22 planned candidates for rulemaking and one emerged due to ASTM action.

Note: Final actual results as well as detailed analysis of performance measures will be reported in the FY 2016 Annual Performance Report.

ID	Program	Performance Measure Statement	FY 2014 Actual	FY 2015 Actual	FY 2016 Target	FY 2016 Actual	FY 2016 Target Met?
3.4.1	Import	Number of import examinations	28,007	35,122	30,000	36,523	✓
3.4.3	Import		99.7%	99.6%	99%	99.8%	✓
3.4.4	Import	Percentage of the CPSC import entry hold requests acted on by U.S. Customs and Border Protection (CBP)	87.2%	91.3%	86%	91.5%	✓
3.4.7	Import	Percentage of entries sampled as identified through the Risk Assessment Methodology (RAM) pilot system	--	12.1%	11%	11.1%	✓
3.4.8	Import	Percentage of first-time violators who are engaged with a timely informed compliance inspection after violation determination	--	--	80%	86%	✓
3.5.3	Hazard	Number of hazard characterization annual reports completed on consumer product-related fatalities, injuries, and/or losses for specific hazards	10	10	11	11	✓
3.5.4	Compliance	Total number of products screened by the CPSC field staff (excluding imports)	--	211,364	180,000	188,361	✓
Strategic Goal 4: Decisive Response							
							✓
4.3.1	Compliance	Percentage of all cases for which the preliminary determination is made within 85 business days of the case opening	60.6%	65.8%	70%	69.1%	✗
4.3.2	Compliance	Percentage of cases for which the corrective action is accepted within 60 business days of the preliminary determination	80.9%	85.8%	80%	87%	✓
4.3.3	Compliance	Percentage of cases in which the firm is notified of a violation in a timely manner	97.1%	96.9%	90%	95.9%	✓
4.3.4	Compliance	Percentage of Fast-Track cases with corrective actions initiated within 20 business days	100%	97.3%	90%	99.1%	✓
4.4.2	Communications	Average number of business days between establishment of first draft and issuance of recall press release for the most timely 90 percent of all recall press releases	--	16	19	17.8	✓
4.5.2	Compliance	Percentage of compliance defect investigation cases referred within 20 business days to Office of the General Counsel (OGC) for review of firms' timely reporting pursuant to Section 15(b)	--	90%	75%	87.5%	✓
Strategic Goal 5: Raising Awareness							
							✓
5.2.2	Communications	Number of impressions of the CPSC safety messages received by consumers on targeted consumer product safety hazards, excluding recalls (in millions)	9,361	16,983	8,500	9,479	✓
5.2.3	Communications	Number of media or social media events involving collaborations with other federal, state or local governments; consumer advocacy organizations; medical or industry groups; or other stakeholders that focus on a targeted hazard with high public concern	--	8	5	7	✓
5.3.1	Communications	Number of impressions of the CPSC safety messages received by consumers on priority hazards in vulnerable communities, excluding recalls (in millions)	2,408	3,666	2,750	3,382	✓
5.3.4	Communications		--	15 ^{/5}	15	20	✓

^{/5} Correction: The FY 2015 Actual should be 15 rather than 12 that were reported initially on page 6 of the FY 2015 AFR (November 2015).

SELECTED PERFORMANCE RESULTS

The CPSC's FY 2016 selected achievements are:

Goal 1: Leadership in Safety

Expansion of international trade, increasingly global supply chains, and technological advances have increased the spectrum of consumer products available to U.S. consumers. This has made the challenge more complex for the CPSC to oversee and regulate thousands of product types. The value of U.S. imports under the CPSC's jurisdiction skyrocketed from \$411 billion in 2002 to \$754 billion in 2015, an increase of 83 percent over the period. Product safety can suffer in countries where domestic regulation is not effective and quality control systems are lacking. Led by the CPSC, regulatory agencies, standards organizations, and consumer and industry groups worldwide are working to address consumer product safety across multiple geographies and priorities. Selected FY 2016 achievements include:

- Provided product safety training and in-depth briefings to product safety officials and industries from 25 foreign jurisdictions;
- Conducted international training exchanges with the consumer product safety authorities of Taiwan, the United Kingdom, and the European Commission; and
- Participated in the Organization for Economic Cooperation and Development (OECD) *Working Party on Consumer Product Safety's* June 2016 consumer outreach project that conducted an international campaign to alert consumers about the dangers of exposed window covering cords, which may cause strangulation of small children.

Goal 2: Commitment to Prevention

The CPSC participates in the development of new safety standards, creates regulations, and educates manufacturers about safety requirements to build safety into consumer products. The CPSC has made significant progress toward creating stronger

mandatory standards under the CPSIA. CPSC staff provides guidance and educational materials to explain federal safety regulations and conducts training and outreach events. Selected FY 2016 achievements include:

- Completed four final CPSIA-related rules during FY 2016, which contributed to a cumulative total of 58 final CPSIA-related rules completed between the passage of the CPSIA in 2008 and the end of FY 2016;
- Collaborated with Health Canada and Profeco (Mexico) on evaluating the performance of laptop AC Adapters and USB chargers relative to their voluntary standards;
- Collaborated with the National Nanotechnology Coordination Office (NNCO), the Nanoscale Science, Engineering, and Technology (NSET) Interagency Subcommittee, the Nanotechnology Environmental and Health Implications (NEHI) working groups, and the European Union (EU) on multiple topics associated with nanotechnology safety;
- Collaborated with the White House, the U.S. Environmental Protection Agency (EPA), and Centers for Disease Control and Prevention (CDC) in an interagency effort to evaluate the health impacts from crumb rubber used in playground surfaces;
- Engaged with the Lithium Battery Interagency Coordination group on batteries and hoverboards;
- Completed rulemaking that changed restrictions on how staff could participate in voluntary standards organizations, by permitting staff to lead and vote on voluntary standards activities; and
- Actively engaged in 71 voluntary standards activities, collaborating with industry leaders, consumer advocates, and other stakeholders to improve *consensus voluntary standards* across a wide range of consumer products.

Goal 3: Rigorous Hazard Identification

The CPSC must determine quickly and accurately which product hazards represent the greatest risks

to consumer safety. Information on injuries, deaths, and other consumer product safety incidents come from a wide range of sources, including consumers and consumer groups, hospitals and clinics, industry, and the press. The CPSC uses a systematic approach to enhance the quality of crucial product hazard data and reduce the time needed to identify trends. The agency's approach includes collecting and assessing hazard data, scanning the marketplace regularly, expanding import surveillance efforts, and increasing surveillance of recalled consumer products offered for resale. Selected FY 2016 achievements include:

- Screened more than 36,500 different imported consumer products at U.S. ports of entry;
- 99.8 percent of import shipments were cleared within one business day;
- The CPSC's Internet Surveillance unit contacted approximately 8,700 internet firms and individuals who were offering for sale banned or previously recalled consumer products via Internet websites, causing the removal of 53,330 recalled or banned product units from being re-sold; and
- Received about 74,200 calls to the CPSC Hotline (1-800-638-2772), where consumers can contact the agency directly with product safety hazard information or concerns. The CPSC distributed more than one million safety publications to consumers.

Goal 4: Decisive Response

Once hazardous products have been identified, the CPSC takes action to protect consumers, remove the products, both in the marketplace and with consumers, and hold violators accountable. The CPSC Field staff investigates reports of incidents and injuries, conducts inspections of manufacturers, importers, and retailers, and identifies potential regulatory violations and product defects that could harm the public. Field staff conducts hundreds of establishment inspections every year and screens many consumer products. The CPSC also responds to industry-generated reports. The agency tests products and component parts for compliance with specific standards and regulations at the CPSC's National Product Testing and

Evaluation Center (NPTEC) and technical staff determines which possible violations and defects warrant corrective action. The CPSC also holds violators accountable for hazardous consumer products. When companies fail to report potentially hazardous products as required, or sell recalled products, the CPSC uses its enforcement authority to seek civil, and in some cases, criminal penalties, as appropriate. Selected FY 2016 achievements include:

- Completed approximately 3,200 establishment inspections of firms for compliance with the CPSC's laws and regulations;
- Sent approximately 2,500 Notices of Non-Compliance and negotiated 365 corrective action plans (CAPs) to address hazardous consumer products;
- Conducted 428 recalls, involving approximately 211 million units; and
- Negotiated nearly \$29 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 safety issues and the CPSC capabilities. The CPSC disseminates safety messages through press releases, social media, satellite and radio media tours, television appearances, public appearances, and videos. The CPSC has significantly increased its presence on the Internet and uses a variety of social media platforms to disseminate information, including an OnSafety blog, Twitter, Google+, YouTube, Flickr, and Widgets. Selected FY 2016 achievements include:

- The CPSC safety campaigns focusing on priority hazards in vulnerable communities resulted in more than 3.3 billion audience impressions, including about 84 million impressions for the CPSC's Safe to Sleep® program; about 1.16 billion impressions for the CPSC's AnchorIt! furniture and television tip-over prevention outreach; more than 1.5 billion impressions for the pool drowning and drain entrapment prevention program; and 565 million impressions for minority outreach;



- The number of members of the Neighborhood Safety Network (NSN) has increased from approximately 3,000 in 2009 to 8,400 in FY 2016. The NSN is a grassroots outreach program that provides timely information to member organizations and individuals, who, in turn, share the CPSC safety messages with underserved consumers who might otherwise never hear of or receive information from the CPSC; and
- Nearly 45,000 followers received the CPSC safety messages on Twitter.

During FY 2016, the CPSC did not meet performance targets for three key measures: 1.6.1, 2.2.1, and 4.3.1;

- **Key Measure 1.6.1 Employee Retention Rate:** The target was 85 percent; the FY 2016 actual result was 70 percent. The CPSC did not meet the target. Of the 37 new employees (those whom had worked at the CPSC for two years or less), 11 left the agency.
- **Key Measure 2.2.1 Candidates for Rulemaking:** The FY 2016 target was 22; the FY 2016 actual result was 10. The CPSC did not meet the target. During FY 2016, CPSC staff prepared 10 rulemaking packages for Commission consideration, of which nine were on the original target; one package (Stroller Direct Final Rule (DFR)) emerged due to ASTM action. Of the

remaining 13 from the original planned list of 22, five were submitted for the CPSC's Section 6(b)(6) clearance but not delivered to the Commission by September 30, 2016; five were CPSIA Section 104 rulemakings that were delayed due to ASTM's pending critical work on the associated voluntary standards; one (Phthalates Final Rule (FR)) required more extensive work than planned; one (6(b) FR) was not completed by the Office of General Counsel (OGC), due to other higher priority work; and one (Voluntary Recall FR) was not completed by the Office of Compliance and Field Operations (EXC), also due to other higher priority work.

- **Key Measure 4.3.1 Preliminary Determination:** The FY 2016 target was 70 percent. The FY 2016 actual result was 69.1 percent, compared to the FY 2015 actual of 65.8 percent; the increase was due to process improvements by the CPSC staff. The CPSC did not meet the annual target despite the increase in FY 2016 due to external factors.

Additional details on the key performance measures and results will be presented in the CPSC's FY 2016 Annual Performance Report (APR), which will be available shortly after publication at <http://www.cpsc.gov/About-CPSC/Agency-Reports/Performance-and-Budget/>.

ANALYSIS OF FINANCIAL STATEMENTS AND STEWARDSHIP INFORMATION

Financial Performance Overview

As of September 30, 2016, the financial condition of the CPSC was sound, with adequate funds to meet program needs and satisfactory controls in place to provide reasonable assurance that the 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 Office of Management and Budget (OMB) Circular No. A-136, Financial Reporting Requirements.

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

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

The CPSC's FY 2016 annual appropriation from Congress was \$125.0 million, of which \$1.0 million was designated for third party test burden reduction while assuring compliance with applicable laws and regulations that is available until September 30, 2017. Additional funds available in FY 2016 were \$3.0 million from offsetting collections for the CPSC data collection that is done on a reimbursable basis with partner government agencies, \$1.0 million of funds available from a prior year appropriation to implement the VGB Act grant program (available until expended), and \$7.3 million from other prior year unobligated balances. The total budgetary resources were \$136.3 million. The year-over-year difference in budget resources available was less than a \$0.2 million increase.

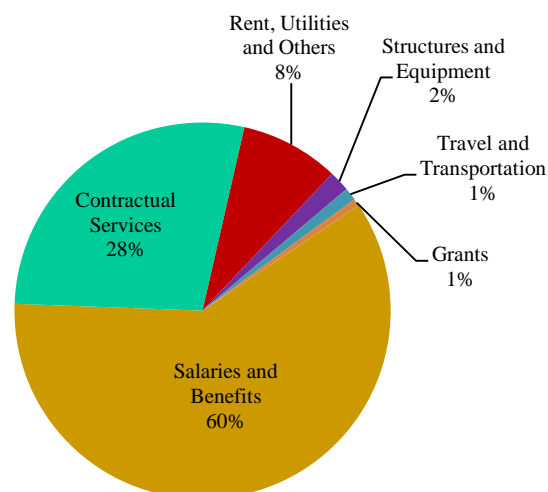
The CPSC made obligations of \$128.7 million in FY 2016, an increase of \$2.6 million or 2 percent from FY 2015. The increase is mostly

attributable to an increase in appropriations from Congress. The amount obligated includes \$123.9 million for mission related salaries and expenses, \$0.5 million for third party test burden reduction while assuring compliance with applicable laws and regulations, \$3.0 million for reimbursable data collection for partner government agencies, \$0.8 million for the VGB Act grant program, and \$0.5 million in upward adjustments drawing down prior year unobligated balances.

Looking at costs by type, approximately 60 percent of the FY 2016 obligations were for salaries and benefits. The remaining 40 percent represented expenses to obtain technical assistance for the CPSC's mission work, for operating expenses, and to fund staff travel.

The following graph provides additional details on the FY 2016 expense categories:

Spending Level Percentage - FY2016

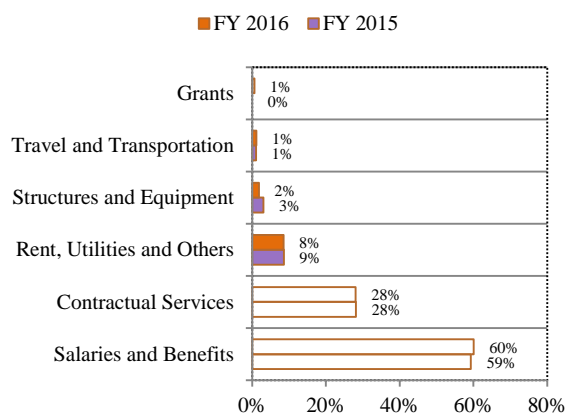


The table below is a comparison of costs by function for the fiscal years ended September 30, 2016 and September 30, 2015:

Costs by Function (millions)	FY 2016	FY 2015	Increase (Decrease)	Percentage (%)
Salaries and Benefits	\$ 77.1	\$ 74.7	\$ 2.4	3%
Contractual Services	36.2	35.4	0.8	2%
Rent, Utilities and Others	10.9	10.8	0.1	1%
Structures and Equipment	2.3	3.8	(1.5)	-39%
Travel and Transportation	1.4	1.4	0.0	0%
Grants	0.8	—	0.8	100%
Total Costs	\$ 128.7	\$ 126.1	\$ 2.6	2%

Salaries and benefits increased by \$2.4 million, or 3 percent, as compared to FY 2015, due to pay increases including promotions, and inflationary increases to benefits, such as health insurance and public transit subsidies. The CPSC maintained a full-time equivalent (FTE) personnel-planning ceiling of 567 in FY 2016, the same as the FY 2015 level. Contractual services increased \$0.8 million or 2 percent from the prior year to conduct mission and related support activities. Structures and equipment costs decreased \$1.5 million or 39 percent from FY 2015 levels. The overall CPSC cost levels in FY 2016 were consistent with the prior year levels. The graph below compares the percentage of costs incurred per function relative to total spending:

Comparative Spending Level Percentage



The Statement of Budgetary Resources (SBR) provides additional information on the available funding and obligations of the CPSC and the

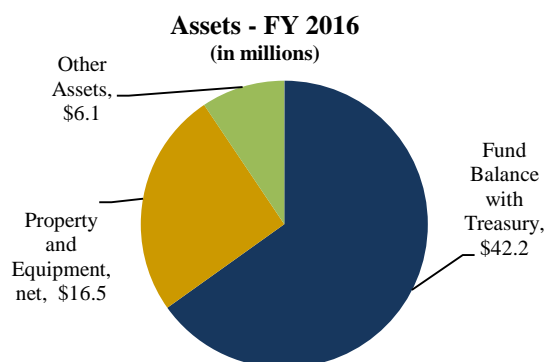
SBR is described in more detail later in this section.

Audit Results: The CPSC received an unmodified audit opinion on its FY 2016 financial statements.

Financial Statement Highlights: The CPSC's financial statements summarize the financial position and financial activities of the agency. The financial statements and the notes to the financial statements appear in the Financial Section of this report, beginning on page 32.

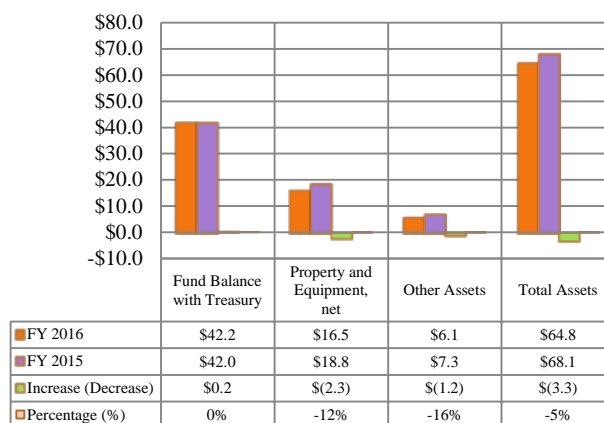
Analysis of the Balance Sheet

The CPSC's assets totaled \$64.8 million as of September 30, 2016, and are categorized into three key asset line items, as shown in the graph below:



The changes in key asset line items as of the fiscal year ended September 30, 2016, compared to September 30, 2015, are shown in the graph and table below:

Comparative Asset Balances (in millions)



The Fund Balance with Treasury consists of appropriated funds and other funds maintained at the U.S. Treasury until final disposition.

Fund Balance with Treasury represented the CPSC's largest asset of \$42.2 million as of September 30, 2016, an increase of \$0.2 million from the prior year. The increase resulted from an increase in appropriations.

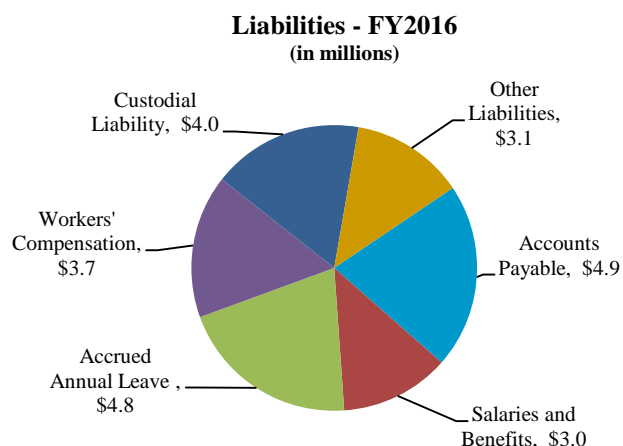
Property and Equipment, net, consists of the net value of the CPSC's leasehold improvements, equipment, furniture and fixtures, computer hardware and software, and construction in progress.

Property and Equipment had a balance of \$16.5 million as of September 30, 2016, a decrease of \$2.3 million from the prior year. The decrease resulted from depreciation exceeding new property and equipment acquisitions.

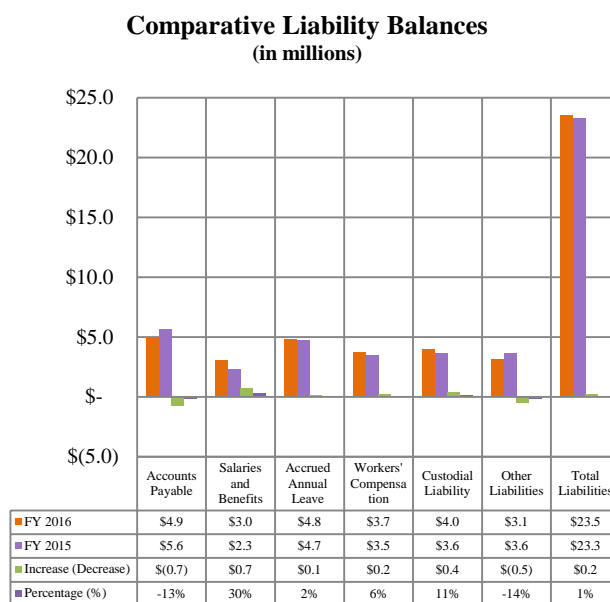
Other Assets, represents advances to other federal agencies for interagency services, such as participation in the National Nanotechnology Initiative (Nano.gov) and operating services, such as payroll processing (Department of Interior) and financial systems and services (Department of Transportation); the CPSC acquires services from other federal agencies through interagency agreements. Included in Other Assets are accounts receivables, comprised of uncollected amounts from civil fines and penalties levied by the CPSC, unpaid Freedom of Information Act (FOIA) fees, and the unused Tenant Improvement Allowance (TIA) from the CPSC's rental lease agreement with the General Services Administration (GSA).

Other Assets had a balance of \$6.1 million as of September 30, 2016, a decrease of \$1.2 million from the prior year. The decrease was primarily due to the use of the tenant improvement allowance to make renovations to the leased property.

The CPSC's liabilities were \$23.5 million as of September 30, 2016 and are comprised within the six categories as shown in the graph on the next column:



The comparative balances of liability categories for the fiscal years ended September 30, 2016 and September 30, 2015, are shown in the graph and table below:



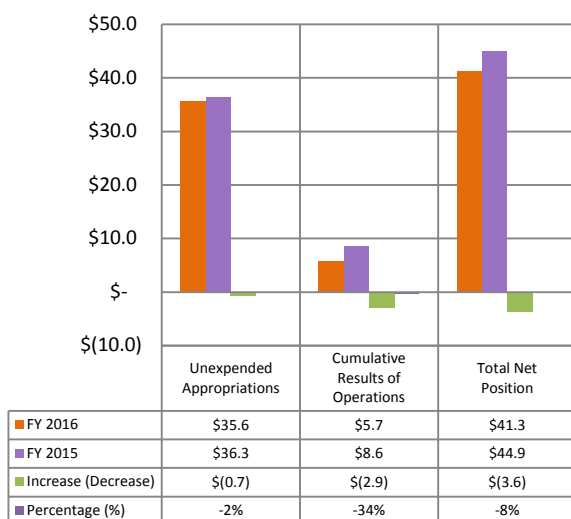
The total liability increased by \$0.2 million from FY 2015 and is attributable to the increases in Accrued Annual Leave, Workers' Compensation and Custodial Liability, offset by decreases of Other Liabilities.

The increase in Custodial Liability resulted from \$4.0 million in civil penalties not yet collected with payment due dates occurring after September 30, 2016. The increase in Workers' Compensation was mainly due to the increase in the actuarial estimate of \$0.4 million calculated using the Department of Labor's model for

estimating actuarial liability for workers' compensation for non-CFO Act entities. The Statement of Changes in Net Position reports the change in net position during the reporting period. Net position is affected by changes in its two components: Cumulative Results of Operations and Unexpended Appropriations. The difference between total assets and total liabilities is net position. The CPSC's net position was \$41.3 million as of September 30, 2016, representing a decrease of \$3.6 million or 8 percent from the prior year (analysis below).

The comparison of net position for the fiscal years ended September 30, 2016 and September 30, 2015, are shown in the graph and table below:

Comparative Net Position
(in millions)



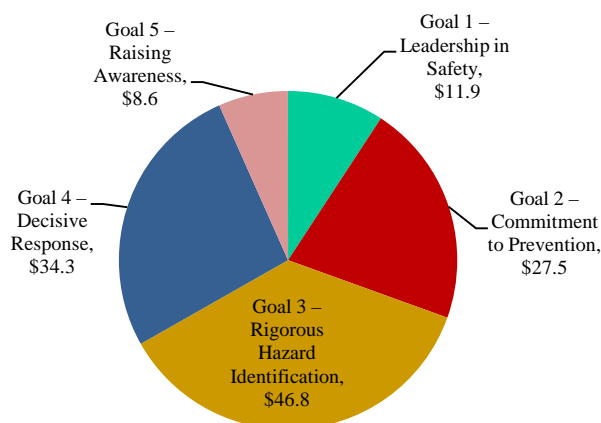
The decrease in unexpended appropriations was primarily due to canceled appropriations of \$1.6 million from FY 2011 and \$2.0 million from FY 2010 and 2011 for VGB Act grants. The unexpended and canceled appropriations are returned to Treasury and are no longer available to the agency for obligation. The canceled appropriations returned to Treasury were more than the \$2.9 million increase in appropriations received and used and prior year balances used. The \$2.9 million decrease in cumulative results of operations was mainly due to the depreciation expenses charged to operations. The total

depreciation for FY 2016 is \$5.3 million, offset in part by additions to capitalized equipment in the amount of \$2.4 million.

Analysis of the Statement of Net Cost

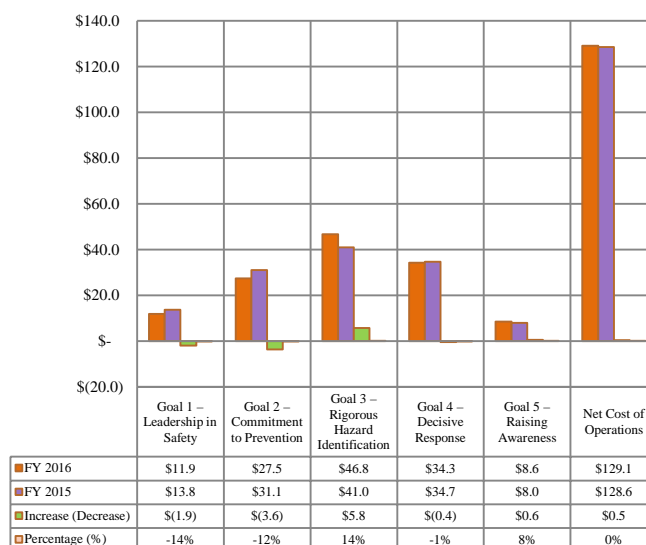
The Statement of Net Cost (SONC) describes the net cost for each of the five strategic goals in the CPSC's FY 2011–FY 2016 Strategic Plan, as shown in the graph below:

Net Cost of Operations - FY2016
(in millions)



The graph and table below show a comparison of net cost of operations for the fiscal years ended September 30, 2016 and September 30, 2015:

Comparative Net Cost of Operations by Goal
(in millions)



The CPSC's net cost of operations was \$129.1 million for the fiscal year ended September 30, 2016, an increase of \$0.5 million from the prior year. The increase resulted from salary expense increases, and inflationary increases to personnel benefits, such as health insurance and the public transit subsidies.

In addition, the SONC also includes costs that will be funded in future years and that are required to be recognized as part of the cost of operations. These include costs such as depreciation on property and equipment, imputed costs, and the impact of changes in actuarial estimates on workers compensation. These costs are not part of the costs presented in the SOS. The reconciliation of the SONC and the SOS is in Note 15 of the Notes to Financial Statement, in the Financial Section of this report.

Analysis of Statement of Changes in Net Position

The decrease in net position was described in the previous section.

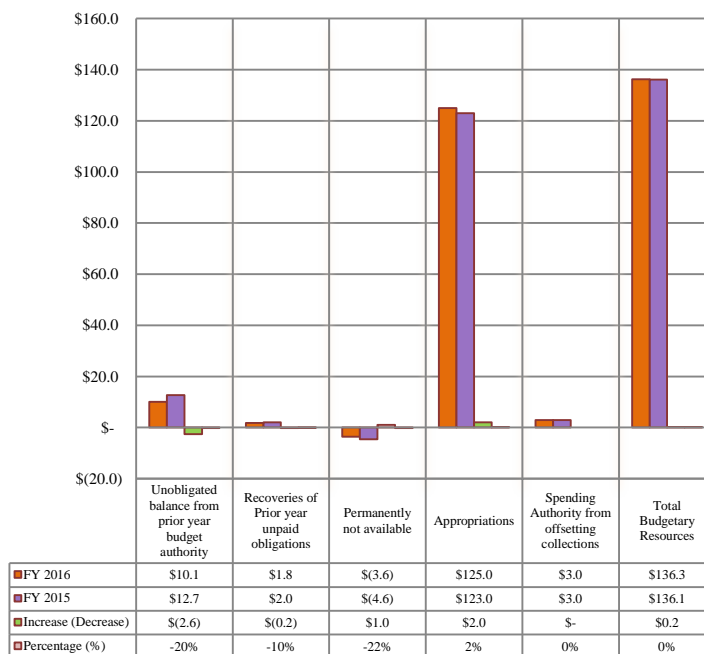
Analysis of the Statement of Budgetary Resources

The SBR shows the sources of funding available and their status as of September 30, 2016. 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, 2016, the CPSC had available budgetary resources of \$136.3 million, mainly comprised of additional appropriations spending authority and prior-year unobligated balances. This represented a net increase of \$0.2 million from the FY 2015 available budgetary resources of \$136.1 million.

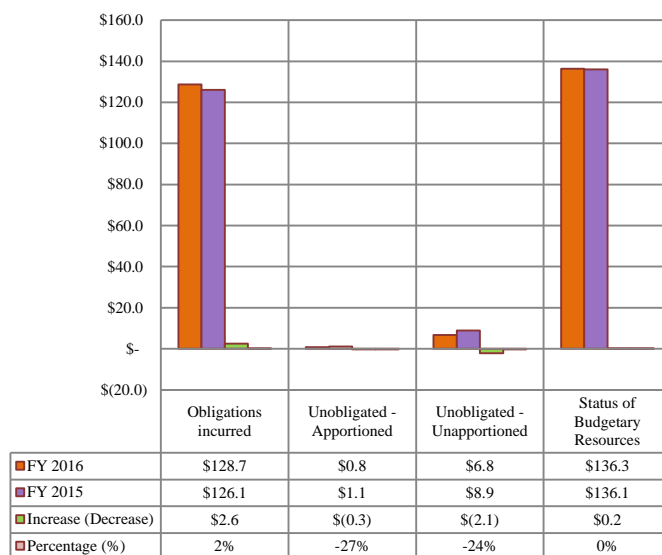
The Comparative Budgetary Resources are presented in the graph and table below:

Comparative Budgetary Resources
(in millions)



The Comparative Status of Budgetary Resources are presented in the graph and table below:

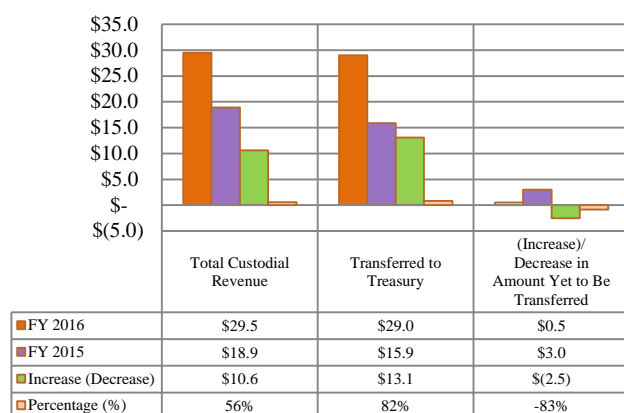
Comparative Status of Budgetary Resources
(in millions)



Analysis of the Statement of Custodial Activity

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

Comparative Custodial Activity
(in millions)



The CPSC reported \$29.5 million in custodial revenue for the fiscal year ended September 30, 2016, compared to \$18.9 million for the fiscal year ended September 30, 2015. The increase was due to civil penalties paid by manufacturers, retailers or distributors in settlement of the CPSC allegations of legal violations. During FY 2016, total fines levied by the CPSC totaled \$29.5 million in addition to the uncollected beginning balance of \$3.5 million, for a total of \$33.0 million; \$29.0 million was transferred to Treasury. The remaining \$4.0 million is from an uncollected civil penalty, due for collection on or before November 26, 2016. The \$4.0 million was reported on the balance sheet as Non-entity Accounts Receivable and Custodial Liability as of September 30, 2016.

CONTROLS, SYSTEMS, AND LEGAL COMPLIANCE

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

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

Federal Managers' Financial Integrity Act of 1982 (FMFIA)

The FMFIA requires 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 provide guidance on the assessment of controls and FMFIA reporting; and
- FMFIA Section 4 (System Compliance) – OMB Circular No. A-123 Appendix D – Management 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 the CPSC leadership, in addition to maximizing favorable program outcomes.

The CPSC's management is responsible for evaluating internal controls. Each manager assesses internal controls within the applicable area of responsibility. In FY 2016, additional support for the individual offices' assurance statements, in the form of internal controls diagnostic checklists were completed by the CPSC managers who lead major mission or support functions within the agency. The diagnostic checklists assisted the CPSC managers in inventorying internal controls in their areas of responsibility and to aid in identifying and addressing internal control deficiencies, weaknesses, or other issues. Questions and responses from the checklists completed by the CPSC offices also were cross referenced to the 17 principles from the U.S. Government Accountability Office (GAO) "Standards for Internal Control in the Federal Government," more commonly known as the "Green Book" which was revised in September 2014. The revised Green Book guidance became effective beginning with FY 2016 and the FMFIA reports covering that year. The diagnostic checklist evaluations are also used in combination with the Managers' Statements of

Assurance (SoA), which were also designed to evaluate internal controls within program offices. The results of the checklist and the Manager's SoAs were aggregated and assessed to inform the overall FMFIA Section 2 management assurance for the agency. The SoA letters that were completed by all major offices within the CPSC informed the Chairman's SoA on internal controls achieving 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. The SoAs were based on several sources of information, including:

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

The CPSC received an unmodified audit opinion on its FY 2016 financial statements. The independent auditor stated that the financial statements present fairly, in all material respects, the financial position of the CPSC, and its net costs, changes in net position, budgetary resources and custodial activity in accordance with accounting principles generally accepted in the United States for the year ended September 30, 2016.

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

For the past 4 years, the CPSC has conducted a comprehensive assessment of internal control over financial reporting to inform the CPSC's documented and structured financial management internal control program, and thereby enhance the integrity and reliability of financial information. Again, in FY 2016, the CPSC evaluated its internal controls and undertook a separate assessment of internal

control for financial reporting under OMB Circular No. A-123 Appendix A. Management's internal controls activity in financial reporting includes periodic, risk-informed testing and evaluation of key internal controls; and developing and implementing corrective action plans, as appropriate, to address nonconformance. Results of the internal controls testing for the financial cycles were disclosed to the independent auditor, and management found no evidence of significant deficiencies or material weaknesses within the agency's financial cycles tested. Based on the overall results of management's financial reporting internal controls evaluation, the CPSC provided reasonable assurance that the internal controls for financial reporting were operating effectively and that no material weaknesses were found in the design or operation of those internal controls as of September 30, 2016.

Federal Financial Management Improvement Act of 1996 (FFMIA)

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

FY 2016 FFMIA Results

As of September 30, 2016, 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 uses financial systems provided by a Shared Service Provider (SSP), operated by the U.S. Department of Transportation's Enterprise Services Center (ESC) for the processing of financial data. The CPSC managers reviewed the Independent Audit Report Statement on Standards for Attestation Engagements 16 (SSAE-16) conducted on behalf of the ESC. The

independent auditors assessed controls for this financial management system and found that it was in substantial compliance with the federal financial management system requirements, applicable federal accounting standards, and the U.S. standard general ledger at the transaction level. The system met federal requirements and accounting standards required by the FFMIA. Additionally, the CPSC uses the U.S. Department of the Interior's Federal Personnel and Payroll System (FPPS) for the processing of the CPSC's payroll data. The SSAE-16 report for FPPS conducted by an independent auditor provided reasonable assurance that controls were suitably designed and that the control objectives were achieved. Accordingly, this system meets the federal financial management system requirements, applicable federal accounting standards and the U.S. standard general ledger at the transaction level as required by the FFMIA. A review of the CPSC's financial management systems in FY 2016 demonstrated that the agency complies 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, 2016, 97 percent of the CPSC's payments that were subject to the Prompt Payment Act were made on time. In FY 2016, the CPSC incurred \$2,871 in interest penalties and made 98 percent of its vendor payments electronically.

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, 2016, delinquent debt was \$0, which was Zero percent of the agency's FY

2016 billings of \$32 million. The CPSC pursues the collection of delinquent debt and refers all eligible delinquent debt more than 120 days delinquent to the U.S. Treasury for collection.

Digital Accountability and Transparency Act of 2014

The Digital Accountability and Transparency Act of 2014, commonly referred to as the DATA Act, requires agencies to establish common standards for financial data provided by all government agencies and to expand the amount of data that agencies must provide to the government website "USASpending.gov." The CPSC has been working to comply with the DATA Act reporting requirements that are effective April 30, 2017.

Federal Information Security Modernization Act (FISMA)

FISMA directs federal agencies to annually evaluate the effectiveness of their information security programs and practices and submit a report – including an independent evaluation by the OIG – to the Department of Homeland Security (DHS), OMB and Congress. Agencies also report quarterly and monthly to DHS and OMB on the status of particular aspects of their information security program.

The CPSC's Chief Information Officer's FY 2016 FISMA report and the OIG's FY 2016 audit status meeting evidence no material weaknesses in information security. The FY 2015 OIG report, however, noted that the CPSC needs to make significant improvements in overseeing systems. The CPSC will continue improving oversight of systems operations and on other information security priorities to meet the standards.

MANAGEMENT ASSURANCE STATEMENT



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

FY 2016 FEDERAL MANAGERS' FINANCIAL INTEGRITY ACT STATEMENT

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

In accordance with the requirements of OMB Circular No. A-123, "Management's Responsibility for Internal Control and Enterprise Risk Management," the CPSC conducted its FY 2016 assessment of the efficiency and effectiveness of internal controls and compliance with applicable laws and regulations. Based on the results of this assessment, the CPSC is providing reasonable assurance that the internal controls over the efficiency and effectiveness of operations and compliance with applicable laws and regulations as of September 30, 2016, met their intended objectives in accordance with FMFIA.

In addition, management is responsible for establishing and maintaining effective internal controls over financial reporting, which includes safeguarding of assets and compliance with applicable laws and regulations. The CPSC assessed the effectiveness of internal controls over financial reporting, in accordance with Appendix A of OMB Circular A-123. Based on the results of this assessment, the CPSC is providing reasonable assurance that the agency's internal controls over financial reporting as of June 30, 2016, were operating effectively and no material weaknesses were found in the design or operation of the agency's internal controls over financial reporting. Subsequent procedures through September 30, 2016, did not identify any material changes in key internal controls over financial reporting.

Furthermore, the CPSC also conducted reviews of its financial management systems in accordance with OMB Circular A-123 Appendix D, Compliance with the Federal Financial Management Improvement Act of 1996 (FFMIA). Based on the results of these reviews, the CPSC can report that its financial management systems substantially comply with the requirements of the FFMIA as of September 30, 2016.

A handwritten signature in blue ink, appearing to read "Elliot F. Kaye", is positioned above the printed name.

Elliot F. Kaye
Chairman
November 10, 2016

LOOKING AHEAD

In FY 2016, the Commission unanimously approved a new CPSC Strategic Plan. The new plan's mission statement for the agency is "Keeping Consumers Safe," and that mission is grounded in the statutes that authorize the agency's work. The plan has four strategic goals to accomplish the mission, and those goals are:

- **Goal 1:** Cultivate the most effective consumer product safety workforce;
- **Goal 2:** Prevent hazardous products from reaching consumers;
- **Goal 3:** Respond quickly to address hazardous consumer products both in the marketplace and with consumers; and
- **Goal 4:** Communicate useful information quickly and effectively to better inform decisions.

Moving from the strategic planning phase to the tactical implementation phase is a key area of emphasis in FY 2017 and beyond. The agency will work to realign its key performance measures, budget requests, financial data, and reports to accomplish the new plan. Agency leadership has already identified key priorities and activities to implement select objectives within the strategic plan in FY 2017, and the agency will build on that implementation work in future years.

The Consumer Product Safety Improvement Act of 2008 (CPSIA) was enacted, in part, in response to identification of a large number of noncompliant imported products targeted at children. One of CPSIA's congressional requirements for the CPSC was to develop a RAM to address these products. During FY 2015, more than 192,000 importers brought into the United States consumer products under the CPSC's jurisdiction having a total estimated value of approximately \$754 billion. That averages to more than \$2 billion per day in imports of consumer products under the Commission's jurisdiction. Additionally, nearly 80 percent of consumer product recalls in FY 2015 involved an imported product. In the FYs

2014, 2015, 2016 and 2017 President's Budget Requests, the CPSC proposed expanding its Import Surveillance pilot program to a full-scale national program to fully meet the CPSIA requirements. The envisioned Import Surveillance program requires additional funding for more CPSC personnel to be co-located at ports of entry with the CBP agency, and for a full production RAM system that interfaces with CBP's trade data system to assess consumer product imports that are at risk of violation or defect. To fund this additional work to implement the CPSIA requirements, the CPSC requested that Congress authorize an import surveillance user fee to be charged on imported consumer products of jurisdiction. Neither the program expansion nor the user fee funding mechanism has been enacted as of the issuance of this report.

Currently, the CPSC is the only agency in the U.S. government with a focus on chemical hazards research in consumer products. Although the U.S. Environmental Protection Agency (EPA) and other agencies perform research on hazards that overlap with consumer products, chemical exposure from consumer products is not the primary focus of these agencies' research programs or their missions. Chronic hazards present in consumer products or caused by hazardous substances are particularly concerning to consumers because they are hidden hazards. Such chronic hazards are difficult to prioritize because, unlike acute hazards, no easily identifiable deaths are directly attributable to them. The CPSC has made it a priority to augment its capability to analyze chronic hazards, and has identified two areas of near term focus: nanotechnology and tire crumb used in artificial playground surfaces.

In 2014, a National Science Foundation (NSF) and National Nanotechnology Coordination Office (NNCO) funded study estimated a \$4.4 trillion worldwide market for final products incorporating nanotechnology by the year 2018, with more than a third of that total contributed by the United States; this represents an increase

of 13 times the level reported in 2010. To help facilitate the safe commercialization of this game-changing technology, it is important that the requisite testing methods for characterizing and quantifying nanotechnology materials in consumer products, identifying and quantifying consumer exposures, and assessing the potential health risks are developed. In the FY 2017 President's Budget Request, the CPSC proposed additional funding to help establish and participate in the National Institute of Environmental Health Sciences (NIEHS) led nanotechnology center to gather the needed consumer product safety data. Funding for this research has not been enacted as of the issuance of this report.

Tire crumb is granular recycled rubber material used as a ground substrate for playgrounds and landscaping mulch, in residential flooring, and in conjunction with artificial turf on athletic fields and playgrounds. Tire crumb may contain metals, such as lead, arsenic, cadmium, chromium, manganese, and mercury; organic compounds, such as ketones, chloroethane; polycyclic aromatic hydrocarbons, benzene, and

halogenated fire retardants; nylon and polyester fibers; dyes and latex. Many of these substances have been associated with possible acute and chronic health effects, such as sensitization and cancer.

As part of the priority to expand research on chronic hazards, and in support of a U.S. government interagency taskforce, the CPSC requested additional funding in the FY 2017 President's Budget Request. The funding was intended to conduct a hazard analysis and quantitative risk assessment of tire crumb to determine whether it may be "hazardous," as defined in the Federal Hazardous Substances Act. Funding for this research has not been enacted as of the issuance of this report.

As the CPSC looks ahead to FY 2017 and beyond, the agency will need to continue to communicate its broad and important mission to Congress, put forward strong, analytically justified requests for appropriations, and prioritize the most important safety work within the resource constraints of the agency.

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 2016 and FY 2015, pursuant to the requirements of Title 31 of the U.S. Code, section 3515 (b).

Although 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



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

The CPSC prepares these statements in conformity with the U.S. Generally Accepted Accounting Principles (GAAP) for the federal government and OMB Circular A-136, Financial Reporting Requirements.

The financial statements provide a comparison of FY 2016 and FY 2015 results. The CPSC prepares the following required financial statements:

- *Balance Sheet* presents, as of September 30, resources owned or managed by the CPSC that provide probable economic benefits (assets), amounts owed by the entity (liabilities), and amounts that comprise the difference (net position).
- *Statement of Net Cost* presents the gross cost incurred by the CPSC, less earned revenue from its activities. The CPSC presents net cost of operations by strategic goal.
- *Statement of Changes in Net Position* reports the change in net position during the reporting period. This statement presents changes to cumulative results of operations.
- *Statement of Budgetary Resources* provides information about available budgetary resources and the status of the resources as of September 30.
- *Statement of Custodial Activity* reports the collection of revenue deposited in the Treasury General Fund. The CPSC accounts for sources and disposition of the revenue collections as custodial activities on this statement.
- The accompanying notes to the financial statements provide a description of significant accounting policies, as well as detailed information on the financial statement contents.

MESSAGE FROM THE CHIEF FINANCIAL OFFICER

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



This past fiscal year, the CPSC has built upon its commitment for sustained financial management excellence. The CPSC's most significant financial management accomplishments in FY 2016 are:

- The CPSC worked with our financial management shared service provider to pilot an electronic invoicing program. The pilot program tests financial system capabilities for vendors to submit invoices for completed work to the agency electronically and then approve those invoices via an automated workflow, resulting in shorter approval and payment timeframes and overall lower operating costs.
- The CPSC continued to implement its plan to comply with the new government-wide requirements of the Digital Accountability and Transparency Act of 2014. The CPSC added the new agency program identifier and aligned financial data with DATA Act protocols to support the upcoming data merge across federal agencies when the Treasury data broker is implemented in FY 2017.
- The CPSC began implementing GAO's revisions to the *Standards for Internal Control in the Federal Government*. The CPSC acclimated managers to the 17 principles included with the revisions and began to integrate the new enterprise risk management concepts, including an enterprise risk framework, into the agency's internal processes and Strategic Data Reviews. The agency will continue to build upon this work in FY 2017.
- The CPSC received its first ever Certificate of Excellence in Accountability Reporting award from the Association of Government Accountants for its FY 2015 Agency Financial Report.

The CPSC was satisfied to have received an unmodified opinion on the FY 2016 financial statements. The accomplishments in FY 2016 are the result of the efforts of dedicated, hard-working professionals across the CPSC. I appreciate the continued support of the entire Commission, with special thanks to the Office of the Inspector General, as we continue to work together to sustain financial management excellence.

Sincerely,

A handwritten signature in black ink, appearing to read "Jay Hoffman".

Jay Hoffman
November 14, 2016

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: November 14, 2016

TO : Elliot F. Kaye, Chairman
Robert S. Adler, Commissioner
Marietta S. Robinson, Commissioner
Ann Marie Buerkle, Commissioner
Joseph P. Mohorovic, Commissioner

FROM : Christopher W. Dentel, Inspector General

SUBJECT : Audit of the Consumer Product Safety Commission's Fiscal Year 2016
Financial Statements

Pursuant to the Accountability of Tax Dollars Act of 2002, this letter transmits the Independent Auditor's Report issued by CliftonLarsonAllen (CLA), for the fiscal year ending September 30, 2016. 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. 15-02, *Audit Requirements for Federal Financial Statements*, as amended.

Opinion on the Financial Statements

CLA audited the financial statements of the U.S. Consumer Product Safety Commission (CPSC), which comprise the balance sheet as of September 30, 2016 and 2015, and the related statements of net cost, changes in net position, budgetary resources, and custodial activity for the year then ended, and the related notes to the financial statements (financial statements). The objective of the audit was to express an opinion on the fair presentation of those financial statements. In connection with the audit, CLA also considered the CPSC's internal control over financial reporting and tested the CPSC's compliance with certain provisions of applicable laws and regulations that could have a material effect on its financial statements.

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

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In CLA's opinion, the financial statements present fairly, in all material respects, the financial position, net cost, changes in net position, budgetary resources, and custodial activity of the CPSC as of, and for the years ending September 30, 2016 and 2015, in conformity with accounting principles generally accepted in the United States of America.

Report on Internal Control

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

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

- A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis.
- A material weakness is deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis
- A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Report on Compliance with Laws and Regulations

CPSC management is responsible for complying with laws and regulations applicable to the agency. To obtain reasonable assurance about whether the CPSC's financial statements are free of material misstatements, CLA performed tests of compliance with certain provisions of laws and regulations, noncompliance which could have material effect on the determination of financial statement amounts, and certain other laws and regulations specified in OMB Bulletin No. 15-02. CLA did not test compliance with all laws and regulations applicable to the CPSC.

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CLA's tests of compliance with laws and regulations described in the audit report disclosed no instances of noncompliance with laws and regulations that are required to be reported under United States generally accepted government auditing standards or OMB guidance.

However, one matter was noted by CLA which, although not required to be reported, is worthy of mention. CLA found that the CPSC is not in compliance with National Institute of Standards and Technology Special Publication 800-34 Rev 1, *Contingency Planning Guide for Federal Information Systems*. Specifically, CLA found that the CPSC does not have a fully functioning alternate computing facility (ACF) for recovery of operations in the event of a disaster, does not have a contingency plan covering its General Support System, and did not conduct required contingency plan testing in FY 16. This finding parallels those made in the CPSC's FY 16 Federal Information Security Modernization Act review. This finding was reported to the CPSC by CLA via letter of comment and does not appear in the body of the audit report as it does not impact the likelihood of material misstatement and is not required to be reported under United States generally accepted government auditing standards or OMB guidance.

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 LLP

www.cliftonlarsonallen.com**INDEPENDENT AUDITORS' REPORT**

Inspector General
United States Consumer Product Safety Commission

Chairman
United States Consumer Product Safety Commission

Report on the Financial Statements

We have audited the accompanying financial statements of the United States Consumer Product Safety Commission (Commission), which comprise the balance sheets as of September 30, 2016 and 2015, and the related statements of net cost, changes in net position, the combined statements of budgetary resources, and custodial activity for the years then ended, and the related notes to the financial statements (financial statements).

Management's Responsibility for the Financial Statements

Commission management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America (U.S.); this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibilities

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the U.S.; the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and Office of Management and Budget (OMB) Bulletin No. 15-02, *Audit Requirements for Federal Financial Statements* (OMB Bulletin 15-02). Those standards and OMB Bulletin 15-02 require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

INDEPENDENT AUDITORS' REPORT (CONTINUED)

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

Opinion on the Financial Statements

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the U.S. Consumer Product Safety Commission as of September 30, 2016 and 2015, and its net costs, changes in net position, budgetary resources, and custodial activity for the years then ended, in accordance with accounting principles generally accepted in the U.S.

Other Matters**Required Supplementary Information**

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

Other Information

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

INDEPENDENT AUDITORS' REPORT (CONTINUED)

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Commission's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

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

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

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported in accordance with *Government Auditing Standards* or OMB Bulletin 15-02.

Management's Responsibility for Internal Control and Compliance

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

Auditors' Responsibilities

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

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

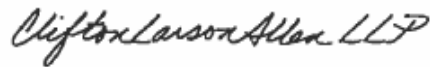
We did not test compliance with all laws, regulations, contracts and grant agreements applicable to the Commission. We limited our tests to certain provisions of laws, regulations, contracts and grant

INDEPENDENT AUDITORS' REPORT (CONTINUED)

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

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

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**

Arlington, Virginia
November 10, 2016

FINANCIAL STATEMENTS

U.S. Consumer Product Safety Commission

Balance Sheet

As of September 30, 2016 and 2015

(in dollars)

	<u>2016</u>	<u>2015</u>
Assets		
Intragovernmental		
Fund Balance with Treasury (Note 2)	\$ 42,231,188	\$ 41,967,246
Accounts Receivable (Note 3)	170,965	417,635
Advances to Other Federal Agency (Note 5)	1,148,901	1,967,345
Tenant Improvement Allowance (Note 6)	675,419	1,363,200
Total Intragovernmental	44,226,473	45,715,426
Accounts Receivable (Note 3)	4,031,589	3,579,882
Property and Equipment, Net (Note 4)	16,522,480	18,782,577
Other	450	505
Total Assets	<u>\$ 64,780,992</u>	<u>\$ 68,078,390</u>
Liabilities		
Intragovernmental		
Accounts Payable	\$ 2,406,621	\$ 1,485,186
Employee Benefits (Note 7)	628,896	469,845
Advances from Reimbursable Services	91,740	244,463
Workers' Compensation (Note 8)	605,151	582,923
Tenant Improvement Liability (Note 10)	2,936,539	3,405,155
Custodial Liability (Note 9)	4,031,589	3,579,882
Total Intragovernmental	10,700,536	9,767,454
Accounts Payable and Others	2,485,916	4,073,483
Salaries and Benefits	2,327,633	1,814,018
Accrued Annual Leave (Note 8)	4,817,090	4,664,081
Workers' Compensation Actuarial (Note 8)	3,136,227	2,876,355
Other Liabilities	-	3,953
Total Liabilities	<u>23,467,402</u>	<u>23,199,344</u>
Net Position		
Unexpended Appropriations	35,591,745	36,246,784
Cumulative Results of Operations (Note 12)	5,721,845	8,632,262
Total Net Position	<u>41,313,590</u>	<u>44,879,046</u>
Total Liabilities and Net Position	<u>\$ 64,780,992</u>	<u>\$ 68,078,390</u>

The accompanying notes are an integral part of these statements.

U.S. Consumer Product Safety Commission
Statement of Net Cost
For the Periods ended September 30, 2016 and 2015
(in dollars)

	<u>2016</u>	<u>2015</u>
Net Cost By Goal (Note 13)		
Goal 1- Leadership in Safety		
Gross Cost	\$ 11,900,139	\$ 13,803,973
Less: Earned Revenue	-	-
Net Cost Goal 1	<u>11,900,139</u>	<u>13,803,973</u>
Goal 2- Commitment to Prevention		
Gross Cost	27,491,652	31,107,244
Less: Earned Revenue	-	-
Net Cost Goal 2	<u>27,491,652</u>	<u>31,107,244</u>
Goal 3- Rigorous Hazard Identification		
Gross Cost	49,534,034	43,528,413
Less: Earned Revenue	(2,738,632)	(2,591,768)
Net Cost Goal 3	<u>46,795,402</u>	<u>40,936,645</u>
Goal 4- Decisive Response		
Gross Cost	34,294,269	34,667,249
Less: Earned Revenue	-	-
Net Cost Goal 4	<u>34,294,269</u>	<u>34,667,249</u>
Goal 5- Raising Awareness		
Gross Cost	8,634,537	8,095,637
Less: Earned Revenue	-	-
Net Cost Goal 5	<u>8,634,537</u>	<u>8,095,637</u>
Total Net Cost of Operations (Note 15)	<u>\$ 129,115,999</u>	<u>\$ 128,610,748</u>

The accompanying notes are an integral part of these statements.

U.S. Consumer Product Safety Commission
Statement of Changes in Net Position
For the Periods ended September 30, 2016 and 2015
(in dollars)

	<u>2016</u>	<u>2015</u>
Cumulative Results of Operations		
Beginning Balances	\$ 8,632,262	\$ 10,067,947
Budgetary Financing sources		
Appropriations Used	122,098,065	123,399,262
Other Financing Sources (Non-Exchange)		
Transfers-In/Out Without Reimbursement (+/-)	-	(28,461)
Imputed Financing (Note 7)	4,087,162	3,804,262
Other	20,355	-
Total Financing Sources	126,205,582	127,175,063
Net Cost of Operations	(129,115,999)	(128,610,748)
Net Change	(2,910,417)	(1,435,685)
Cumulative Results of Operations	5,721,845	8,632,262
Unexpended Appropriations		
Beginning Balance	36,246,784	41,256,114
Budgetary Financing Sources		
Appropriations Received	125,000,000	123,000,000
Other Adjustments	(3,556,974)	(4,610,068)
Appropriations Used	(122,098,065)	(123,399,262)
Total Budgetary Financing Sources	(655,039)	(5,009,330)
Total Unexpended Appropriations	35,591,745	36,246,784
Net Position	<u>\$ 41,313,590</u>	<u>\$ 44,879,046</u>

The accompanying notes are an integral part of these statements.

U.S. Consumer Product Safety Commission
Statement of Budgetary Resources
For the Periods ended September 30, 2016 and 2015
(in dollars)

	2016	2015
Budgetary Resources		
Unobligated balance brought forward, October 1	\$ 10,064,790	\$ 12,711,922
Recoveries of prior year unpaid obligations	1,746,158	2,027,839
Recoveries of prior year paid obligations	36,760	-
Unobligated balance from prior year budget authority, net	11,847,708	14,739,761
Appropriations	125,000,000	123,000,000
Permanently not available	(3,556,974)	(4,610,068)
Spending authority from offsetting collections	3,002,504	3,005,194
Total Budgetary Resources (Note 14)	136,293,238	136,134,887
Status of Budgetary Resources		
Obligations incurred	128,729,014	126,070,097
Unobligated balance, end of year:		
Apportioned	817,352	1,120,355
Unapportioned	6,746,872	8,944,435
Total unobligated balance, end of year	7,564,224	10,064,790
Total Status of Budgetary Resources (Note 14)	136,293,238	136,134,887
Change in Obligated Balance		
Unpaid Obligations:		
Unpaid obligations, brought forward, October 1 (gross)	34,565,386	33,616,945
Obligations incurred	128,729,014	126,070,097
Outlays (gross)	(124,201,146)	(123,093,817)
Recoveries of prior year unpaid obligations	(1,746,158)	(2,027,839)
Unpaid obligations, end of year	37,347,096	34,565,386
Uncollected payments:		
Uncollected pymts, Fed sources, brought forward, Oct 1 (-)	(2,662,930)	(2,190,606)
Change in uncollected pymts, Fed sources (+ or -)	(17,202)	(472,324)
Uncollected pymts, Fed sources, end of year (-)	(2,680,132)	(2,662,930)
Memorandum (non-add) entries:		
Obligated balance, start of year (+ or -)	31,902,456	31,426,339
Obligated balance, end of year (net)	34,666,964	31,902,456
Budget Authority and Outlays, Net		
Budget authority, gross	128,002,504	126,005,194
Actual offsetting collections	(3,022,062)	(2,532,870)
Change in uncollected customer payments from Federal sources	(17,202)	(472,324)
Recoveries of prior year paid obligations	36,760	-
Budget authority, net	125,000,000	123,000,000
Outlays, gross	124,201,146	123,093,817
Actual offsetting collections	(3,022,062)	(2,532,870)
Outlays, net	121,179,084	120,560,947
Distributed offsetting receipts	(3,151)	(10,379)
Agency Outlays, net	\$ 121,175,933	\$ 120,550,568

The accompanying notes are an integral part of these statements.

U.S. Consumer Product Safety Commission
Statement of Custodial Activity
For the Periods ended September 30, 2016 and 2015
(in dollars)

	<u>2016</u>	<u>2015</u>
Revenue Activity:		
Sources of Cash Collections:		
Miscellaneous:		
Civil Penalties & Fines	\$ 29,049,100	\$ 15,874,100
FOIA and Miscellaneous	<u>3,151</u>	<u>10,390</u>
Total Cash Collections	29,052,251	15,884,490
Accrual Adjustments	<u>451,707</u>	<u>3,051,216</u>
Total Custodial Revenue	<u>29,503,958</u>	<u>18,935,706</u>
Disposition of Collections:		
Transferred to Others:		
Treasury General Fund	29,052,251	15,884,490
Increase/(Decrease) in Amount Yet to be Transferred	<u>451,707</u>	<u>3,051,216</u>
Total Disposition of Collections	<u>29,503,958</u>	<u>18,935,706</u>
Net Custodial Activity	<u>\$ -</u>	<u>\$ -</u>

The accompanying notes are an integral part of these statements.

NOTES TO THE FINANCIAL STATEMENTS

Note 1 – Summary of Significant Accounting Policies

Reporting Entity

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

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

Fund Accounting Structure

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

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

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

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

Budget Authority

Congress enacts appropriations that provide the CPSC with authority to obligate funds for necessary expenses to carry out authorized program activities. The funds appropriated are subject to OMB apportionment. The CPSC's Administrative Control of Funds directive complies with Federal budgetary accounting guidelines of OMB Circular No. A-11, *Preparation, Submission and Execution of the Budget, Revised* (July 2016). This directive places internal restrictions on the apportioned funds by designating the amount, use, and authorized party of any division of the apportioned funds. These restrictions – known as allotments, sub-allotments, and allowances – limit the amounts available so obligations will not exceed the appropriated or apportioned amounts.

Basis of Accounting and Presentation

The financial statements have been prepared on the accrual basis and the budgetary basis of accounting in conformity with the 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 Treasury

The U.S. Department of Treasury (Treasury) collects and disburses cash on behalf of CPSC. Fund Balances with Treasury consist of appropriated funds and general fund receipt accounts. Appropriated funds are available to pay current liabilities and authorized purchase commitments. General fund receipt accounts are used to record collections made by the CPSC on behalf of the U.S. 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 customers for reimbursable agreement, overpayment to vendors and current and former employees. Non-entity accounts receivable are civil monetary penalties resulting from the CPSC's enforcement actions, and for fees billed to fulfill Freedom of Information Act requests. The CPSC holds these non-entity receivables in a custodial capacity. The CPSC calculates the allowance for uncollectible accounts using an analysis of historical collection data. No allowance for uncollectible amounts or related provisions for estimated losses has been established, as these amounts are fully collectible based on historical experience.

Property and Equipment

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

Equipment and software with an acquisition value greater than \$5,000 and greater than \$15,000 beginning August 2014 and with a useful life of two or more years are capitalized. Furniture, fixtures, other equipment and leasehold improvements with an aggregate acquisition cost of \$100,000 and a useful life of two or more years are capitalized. The CPSC reports property and equipment purchases and additions

at historical costs. The CPSC treats property and equipment acquisitions that do not meet the capitalization criteria as an expense.

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

Liabilities

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

Accounts Payable

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

Federal Employees Benefits

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

Accrued Annual Leave

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

Employee Health Benefits and Life Insurance

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

Federal Employees' Compensation Act (FECA)

The CPSC records an estimated liability for future worker's compensation claims based on data provided from the Department of Labor (DOL). The CPSC uses the DOL provided data to estimate a FECA actuarial liability that is recorded at year-end.

Contingencies

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

the fair presentation of the CPSC's financial statements, and provisions for these losses are not included in the financial statements.

Estimates and Assumptions

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

Note 2 – Fund Balance with Treasury

CPSC's funds with the U.S. Treasury consist of only appropriated funds. The status of these funds as of September 30, 2016 and September 30, 2015 is:

	2016	2015
Unobligated Balance		
Available	\$ 817,352	\$ 1,120,355
Unavailable	6,746,872	8,944,435
Obligated Balance, Not Yet Disbursed	34,666,964	31,902,456
Total Funds with U.S. Treasury	<u>\$ 42,231,188</u>	<u>\$ 41,967,246</u>

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

Note 3 – Accounts Receivable

The CPSC's accounts receivable is comprised of entity and non-entity accounts. The entity receivables include amounts due from other agencies for goods and services provided and amounts due from current and former employees. The non-entity receivables include Civil Fines and Penalties and Freedom of Information Act activity. No allowance for uncollectible amounts or related provision for estimated losses has been established for the CPSC's accounts receivable, as these amounts are fully collectible based on historical experience. The composition of accounts receivable as of September 30, 2016 and September 30, 2015 is:

	2016	2015
Entity		
Intra-governmental		
Accounts Receivable - Reimbursable	\$ 170,965	\$ 417,635
Non-Entity		
Public		
Civil Fines and Penalties	4,027,033	3,576,133
Other Receivable	4,556	3,749
Total Non-Entity Accounts Receivable	<u>4,031,589</u>	<u>3,579,882</u>
Total Accounts Receivable	<u>\$ 4,202,554</u>	<u>\$ 3,997,517</u>

Note 4 – Property, Plant and Equipment, Net

The composition of property, plant and equipment (PPE) as of September 30, 2016 is:

Classes of PPE	Acquisition Cost	Accumulated Depreciation	Net Book Value	Service Life in Years
Leasehold Improvement	\$ 22,928,696	\$ 13,961,657	\$ 8,967,039	6-14
Equipment	17,516,292	11,432,051	6,084,241	5-12
Furniture, Fixture & Other Equipment	2,608,689	2,232,868	375,821	3-5
ADP Software	1,991,078	1,236,059	755,019	5
Construction in Progress	340,360	-	340,360	
Total	<u>\$ 45,385,115</u>	<u>\$ 28,862,635</u>	<u>\$ 16,522,480</u>	

The composition of PPE as of September 30, 2015 is:

Classes of PPE	Acquisition Cost	Accumulated Depreciation	Net Book Value	Service Life in Years
Leasehold Improvement	\$ 22,240,915	\$ 11,190,046	\$ 11,050,869	6-14
Equipment	16,991,669	10,363,167	6,628,502	5-12
Furniture, Fixture & Other Equipment	2,437,528	1,808,500	629,028	3-5
ADP Software	1,675,954	1,201,776	474,178	5
Construction in Progress	-	-	-	
Total	<u>\$ 43,346,066</u>	<u>\$ 24,563,489</u>	<u>\$ 18,782,577</u>	

Note 5 – Advances to Other Federal Agency

The balance of advances to other federal agencies as of September 30, 2016 and September 30, 2015 is \$1,148,901 and \$1,967,345 respectively. The majority of advances to other federal agencies are for the service contract with National Institute of Standards and Technology (NIST) in support of the CPSC's work with the National Nanotechnology Initiative (NNI). Other advances are for the CPSC's shared services contracts with federal agencies for the accounting operations, payroll and employee transit benefit.

Note 6 – Tenant Improvement Allowance (TIA)

The TIA is the amount available for the CPSC to spend on customization of leased properties. The TIA is for the lease contracts with the General Services Administration for the CPSC's Headquarters (HQ) offices located in Bethesda, Maryland and the sample storage facility (SSF) located in Gaithersburg, Maryland. The TIA is reduced upon completion of the work order on the leased property and the amount is capitalized as a leasehold improvement. The composition of the TIA as of September 30, 2016 and September 30, 2015 is:

	2016	2015
Intra-governmental		
Tenant Improvement Allowance - HQ	\$ 644,904	\$ 1,332,685
Tenant Improvement Allowance - SSF	30,515	30,515
Total TIA	<u>\$ 675,419</u>	<u>\$ 1,363,200</u>

Note 7 – Federal Employee Benefits

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

The federal employee retirement benefit costs paid by OPM and imputed to CPSC for the period ended September 30, 2016 and September 30, 2015 is:

	2016	2015
Estimated future pension costs (CSRS/FERS)	\$ 1,300,146	\$ 1,470,455
Estimated future postretirement health insurance (FEHB)	2,776,216	2,323,203
Estimated future postretirement life insurance (FEGLI)	10,800	10,604
Total Imputed Costs	<u>\$ 4,087,162</u>	<u>\$ 3,804,262</u>

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

For employees participating in FERS, the CPSC contributes the employer's matching amount to FERS and to Social Security under the Federal Insurance Contributions Act (FICA). For employees participating in CSRS, the CPSC makes matching contributions equal to 7 percent of the employee's gross earnings to the CSRS. All employees are eligible to contribute to the Thrift Savings Plan (TSP). For those employees participating in FERS, the CPSC makes a mandatory 1 percent contribution to their TSP account automatically. In addition, the CPSC matches FERS employee contributions up to 4 percent, for a maximum agency contribution of 5 percent. Employees participating in CSRS do not receive matching contributions to their TSP account. The CPSC's contributions are recognized as current operating expenses.

Amounts owed to OPM and Treasury as of September 30, 2016 and September 30, 2015, were \$628,896 and \$469,845, respectively, for CSRS, FERS, FICA, FEHB, and FEGLI contributions and are shown on the balance sheets as an employee benefits liability.

Note 8 – Liabilities Not Covered by Budgetary Resources

The liabilities on the CPSC's balance sheet as of September 30, 2016 and September 30, 2015 include liabilities not covered by budgetary resources. The intra-governmental liabilities are owed to DOL for the Federal Employee's Compensation Act (disability) payments and the General Services Administration (GSA) for the tenant improvement allowance provided as a part of the long-term lease on office facilities. The CPSC also recognizes liabilities for employee annual leave earned but not yet taken and for workers' compensation actuarial liability. The composition of the liabilities not covered by budgetary resources as of September 30, 2016 and September 30, 2015 is:

	2016	2015
Intra-governmental		
Worker's Compensation	\$ 605,151	\$ 582,923
Tenant Improvement Liability	2,936,539	3,405,155
Total Intra-governmental	3,541,690	3,988,078
Accrued Annual Leave	4,817,090	4,664,081
Worker's Compensation Actuarial	3,136,227	2,876,355
Other Liabilities	-	3,953
Total Liabilities Not Covered by Budgetary Resources	<u>\$ 11,495,007</u>	<u>\$ 11,532,467</u>

Note 9 – Custodial Liability

The CPSC has authority to levy fines and penalties against manufacturers, retailers or distributors who violate the Consumer Product Safety Act (as amended), Federal Hazardous Substance Act, and the Flammable Fabrics Act. Civil penalty collections are deposited in the U.S. Treasury and are not available for the CPSC to use. The CPSC charges a fee for the processing of 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 uncollected civil penalties, FOIA fees and balances in the U.S. Treasury's miscellaneous receipt funds are recognized as a Custodial Liability in the CPSC's Balance Sheet. As of September 30, 2016 and September 30, 2015, the total Custodial Liabilities are \$4,031,589 and \$3,579,882 respectively. The revenue and collection activities are presented in the Statement of Custodial Activities.

Note 10 – Tenant Improvement Liability (TIL)

The composition of TIL as of September 30, 2016 and September 30, 2015 is:

	2016	2015
Intra-governmental		
Tenant Improvement Liability – HQ	\$ 1,521,688	\$ 1,747,123
Tenant Improvement Liability – 5RP	1,314,353	1,529,851
Tenant Improvement Liability – SSF	100,498	128,181
Total Tenant Improvement Liability	<u>\$ 2,936,539</u>	<u>\$ 3,405,155</u>

The unfunded intra-governmental tenant improvement liability (TIL) is payable to GSA over the life of the lease. The CPSC's lease agreements with the GSA are for three facilities in Maryland; the Headquarters (HQ) offices located in Bethesda, the National Product Testing and Evaluation Center

(NPTEC) located in Rockville, and the sample storage facility (SSF) located in Gaithersburg. The three leases provided an allowance for customization of the properties. The TIL is amortized over the life of the lease. The TIL is reduced when the amortized amount is billed by GSA and paid by the CPSC.

Note 11 – Operating Leases

The CPSC's lease agreements with the GSA are for three facilities in Maryland; the Headquarters (HQ) offices located in Bethesda, the National Product Testing and Evaluation Center (NPTEC) located in Rockville, and the sample storage facility (SSF) located in Gaithersburg. These operating lease agreements expire between fiscal years 2019 and 2023. Lease costs for the period ended September 30, 2016 and September 30, 2015 amounted to approximately \$7,101,217 and \$7,090,379, respectively. Estimated future minimum lease payments for the three facilities are:

Fiscal Year	Estimated Future Lease Payments
2017	\$ 7,744,675
2018	7,811,722
2019	7,880,780
2020	7,951,914
2021	5,868,660
2022 and thereafter	9,313,516
Total Estimated Future Lease Payments	<u>\$ 46,571,267</u>

Note 12 – Cumulative Results of Operations

The cumulative results of operations represent the excess of financing sources over expenses since inception. Details of the components of the CPSC's cumulative results of operations for the fiscal year ending September 30, 2016 and 2015 are:

	2016	2015
Investment in leasehold improvements, net	\$ 8,967,039	\$ 11,050,869
Investment in property and equipment, net	7,555,441	7,731,708
Tenant improvement allowance	675,419	1,363,199
Gift fund and other assets	18,953	18,953
Liabilities not covered by budgetary resources	(11,495,007)	(11,532,467)
Cumulative results of operations	<u>\$ 5,721,845</u>	<u>\$ 8,632,262</u>

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

Note 13 – Intra-governmental and Public Costs and Exchange

The Statement of Net Cost presents the CPSC's results of operations for its program. The CPSC assigns all costs incurred to five strategic goals. The full cost of the CPSC's program is comprised of direct costs associated with each goal and support costs that are allocated among the five goals. Examples of support costs include general administrative services, rent, security, technical support and operating and

maintenance cost for leased facilities, equipment and utilities. Support costs are allocated to strategic goals as a proportion of the of direct costs incurred or straight-line allocation, depending on the composition of the support cost.

Earned revenue is from exchange transactions and is deducted from the cost of CPSC's injury data collection program. A major source of earned revenue comes from providing national injury data and estimates to other federal agencies.

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 nonfederal entities. Intra-governmental and public costs and exchange revenue for the periods ended September 30, 2016 and September 30, 2015 are:

	Intra-governmental	With the Public	2016 Total
Gross Costs	\$ 38,262,930	\$ 93,591,701	\$ 131,854,631
Less: Earned Revenue	2,738,632	-	2,738,632
Net Program Costs	<u>\$ 35,524,298</u>	<u>\$ 93,591,701</u>	<u>\$ 129,115,999</u>
	Intra-governmental	With the Public	2015 Total
Gross Costs	\$ 39,547,020	\$ 91,655,496	\$ 131,202,516
Less: Earned Revenue	2,591,768	-	2,591,768
Net Program Costs	<u>\$ 36,955,252</u>	<u>\$ 91,655,496</u>	<u>\$ 128,610,748</u>

Note 14 – Budgetary Resources

Budgetary resources available to CPSC in fiscal year 2016 include current year appropriations in the amount of \$125,000,000, and prior year appropriations 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) in the amount of \$1,000,000, which is part of the unobligated balance brought forward from prior year. Other changes in unobligated balances were due to the return of permanently not available funds to the U.S. Treasury in the amount of \$3,556,974 in fiscal year 2016.

Spending authority from offsetting collections are reimbursable revenue earned for goods and services that the CPSC provides to other agencies and the public. The CPSC recognizes reimbursable work agreement revenue when earned, i.e. goods have been delivered or services rendered. Beginning with fiscal year 2014, the CPSC no longer collects advances on its reimbursable agreements. The CPSC generated collections resulting from reimbursable agreements totaling \$3,022,062 and \$2,532,870 as of September 30, 2016 and 2015, respectively. The relationships with the Centers for Disease Control and Prevention, National Institute for Occupational Safety and Health, and National Highway Traffic Safety Administration represent the majority of these agreements that fund national injury data collection and estimation.

The status of budgetary resources is comprised of new obligations and upward adjustments for obligations incurred in the amount of \$128,729,014 and unobligated balances, end of year in the amount of \$7,564,224. The unobligated balances, end of year is comprised of apportioned, unexpired funds;

unapportioned, unexpired funds; and expired unobligated balances. The unobligated balance, apportioned consists of unexpired Virginia Graeme Baker grant funds in the amount of \$218,464, fiscal year 2016/2017 two year appropriation for burden reduction while assuring compliance in the amount of \$484,375, and fiscal year 2016 unobligated appropriation of \$114,513 for a total of \$817,352. The unobligated balance, unapportioned consists of unexpired trust fund receipt account for gifts and donations in the amount of \$18,953 and expired unobligated balances from the prior years in the amount of \$6,727,919, for a total of \$6,746,872.

A comparison of the CPSC's fiscal year 2015 statement of budgetary resources with the corresponding information presented in the fiscal year 2017 President's Budget is:

	Budgetary Resources	Obligations Incurred
Fiscal Year 2015 Statement of Budgetary Resources	\$ 136,134,887	\$ 126,070,097
Unobligated balances, beginning of year - (fund activity on expired accounts)	(11,711,922)	
Recovery of prior year unpaid obligation	(2,027,839)	
Obligations incurred - expired years		(195,800)
Permanently not available - (fund activity on expired accounts)	4,610,068	
Other - rounding in President's Budget	(5,194)	125,703
2017 Presidents Budget - Fiscal Year 2015, actual	<u>\$ 127,000,000</u>	<u>\$ 126,000,000</u>

The fiscal year 2018 President's Budget will not be published prior to February 2017. Accordingly, a comparison between the fiscal year 2016 data reflected on the statement of budgetary resources and fiscal year 2016 data in the President's Budget cannot be performed. CPSC's apportionments fall under Category A, quarterly apportionment for salaries and expenses and Category B, restricted and activity apportionment for reimbursable activities. Apportionment categories of obligations incurred for the fiscal years ending September 30, 2016 and 2015 are:

	2016	2015
Direct Salaries and Expenses- Category A	\$ 125,528,460	\$ 123,072,516
Reimbursable Activities - Category B	3,200,554	2,997,581
Total Obligations incurred	<u>\$ 128,729,014</u>	<u>\$ 126,070,097</u>

Note 15 – Reconciliation of Net Cost of Operations to Budget

Details of the relationship between budgetary resources obligated and the net cost of operations for the fiscal years ending September 30, 2016 and September 30, 2015 is:

	2016	2015
RESOURCES USED TO FINANCE ACTIVITIES		
Budgetary Resources Obligated:		
Obligations Incurred	\$ 128,729,014	\$ 126,070,097
Less: Spending Authority from Offsetting Collections and Recoveries	4,785,421	5,033,033
Net Obligations	123,943,593	121,037,064
Imputed Financing from Cost Absorbed by Others	4,087,162	3,804,262
Total Resources Used to Finance Activities	128,030,755	124,841,326
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	(1,956,676)	1,959,313
Budgetary Offsetting Collections that do not Affect Net Cost of Operations	111,149	402,884
Resources that Finance the Acquisition of Assets Capitalized	(2,422,426)	(4,552,619)
Net Decrease in Other Liability – Tenant Improvement Allowance	(468,616)	(468,616)
Net Decrease in Receivables not Generating Resources until Collected	-	201
Total Resources Used to Finance Items not Part of the Net Cost of Operations	(4,736,569)	(2,658,837)
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	153,010	162,840
Change in Unfunded FECA Liability	282,098	158,918
Total Components of Net Cost of Operations That Will Require or Generate Resources in Future Periods	435,108	321,758
Components not Requiring or Generating Resources in the Current Period		
Depreciation and Amortization	5,346,894	6,105,425
Other Costs that will not Require Resources	39,811	1,076
Total Components of Net Cost of Operations That Will Not Require or Generate Resources	5,386,705	6,106,501
Total Components of Net Cost of Operations That Will Not Require or Generate Resources in the Current Period	5,821,813	6,428,259
Net Cost (Income) from Operations	\$ 129,115,999	\$ 128,610,748

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

U.S. Consumer Product Safety Commission Combining Statement of Budgetary Resources by Fund For the Period ended September 30, 2016 (in dollars)

	Salaries and Expenses and Other Funds	Gift Fund	Total
Budgetary Resources			
Unobligated balance brought forward, October 1	\$ 10,045,837	\$ 18,953	\$ 10,064,790
Recoveries of prior year unpaid obligations	1,746,158	-	1,746,158
Recoveries of prior year paid obligations	36,760	-	36,760
Unobligated balance from prior year budget authority, net	11,828,755	18,953	11,847,708
Appropriations	125,000,000	-	125,000,000
Permanently not available	(3,556,974)	-	(3,556,974)
Spending authority from offsetting collections	3,002,504	-	3,002,504
Total Budgetary Resources (Note 14)	<u>136,274,285</u>	<u>18,953</u>	<u>136,293,238</u>
Status of Budgetary Resources			
Obligations incurred	128,729,014	-	128,729,014
Unobligated balance, end of year:			
Apportioned	817,352	-	817,352
Unapportioned	6,727,919	18,953	6,746,872
Total unobligated balance, end of year	7,545,271	18,953	7,564,224
Total Status of Budgetary Resources (Note 14)	<u>136,274,285</u>	<u>18,953</u>	<u>136,293,238</u>
Change in Obligated Balance			
Unpaid Obligations:			
Unpaid obligations, brought forward, October 1 (gross)	34,565,386	-	34,565,386
Obligations incurred	128,729,014	-	128,729,014
Outlays (gross)	(124,201,146)	-	(124,201,146)
Recoveries of prior year unpaid obligations	(1,746,158)	-	(1,746,158)
Unpaid obligations, end of year	37,347,096	-	37,347,096
Uncollected payments:			
Uncollected pymts, Fed sources, brought forward, Oct 1 (-)	(2,662,930)	-	(2,662,930)
Change in uncollected pymts, Fed sources (+ or -)	(17,202)	-	(17,202)
Uncollected pymts, Fed sources, end of year (-)	(2,680,132)	-	(2,680,132)

Memorandum (non-add) entries:

Obligated balance, start of year (+ or -)	<u>31,902,456</u>	<u>-</u>	<u>31,902,456</u>
Obligated balance, end of year (net)	<u>34,666,964</u>	<u>-</u>	<u>34,666,964</u>
			-
Budget Authority and Outlays, Net			
Budget authority, gross	128,002,504	-	128,002,504
Actual offsetting collections	(3,022,062)	-	(3,022,062)
Change in uncollected customer payments from Federal sources	(17,202)	-	(17,202)
Recoveries of prior year paid obligations	<u>36,760</u>	<u>-</u>	<u>36,760</u>
Budget Authority, net	<u>125,000,000</u>	<u>-</u>	<u>125,000,000</u>
Outlays, gross	124,201,146	-	124,201,146
Actual offsetting collections	<u>(3,022,062)</u>	<u>-</u>	<u>(3,022,062)</u>
Outlays, net	121,179,084	-	121,179,084
Distributed offsetting receipts	<u>(3,151)</u>	<u>-</u>	<u>(3,151)</u>
Agency Outlays, net	<u>\$ 121,175,933</u>	<u>\$ -</u>	<u>\$ 121,175,933</u>

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OTHER INFORMATION



The Other Information section provides supplementary information regarding the CPSC's financial and program management.

It includes "The Management Challenges Report" prepared by the Office of the Inspector General.

The Combined Schedule of Spending provides an overview of how the CPSC spent its resources relative to the agency's five strategic goals.

The Summary of Financial Statement Audit and Management Assurances that lists each material weakness and nonconformance found and/or resolved in FY 2016.

Lastly, this section provides the agency's compliance with the Improper Payments Elimination and Recovery Act reporting.

INSPECTOR GENERAL'S MANAGEMENT CHALLENGES REPORT

The Reports Consolidation Act requires that the Office of the Inspector General (OIG) 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 and are little changed from those reported last year:

- Information Technology Security
- Adequacy of Internal Controls
- Budget Uncertainty

Information Technology Security

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

The most recently completed Federal Information Security Modernization Act (FISMA) evaluation found that, although much work remains, management continues to make progress in implementing the FISMA requirements.⁶ The General Support System Local Area Network (GSS LAN) completed the security accreditation process and maintained an active security accreditation. The Consumer Product Safety Risk Management System (CPSRMS), the International Trade Data System/Risk Automation Methodology System (ITDS/RAM) application, and the CPSC public website, www.cpsc.gov, completed independent security assessments and retained active security accreditations. The Cyber Security Incident

Response Team (CSIRT) continued to improve its processes as it matured by refining Standard Operating Procedures (SOPs), implementing new solutions, and improving existing solutions to facilitate the identification of security incidents. The CPSC also increased IT security staffing by hiring a Chief Information Security Officer (CISO) to assist with IT security efforts.

The CPSC's continued improvement in system reporting and monitoring capabilities, combined with the CPSC's maturing incident handling process positioned the agency to take proactive steps to address known and potential vulnerabilities. However, the OIG identified several security weaknesses in the CPSC's management, operational, and technical controls policies, procedures, and practices. The conditions outlined in the 2015 FISMA report could result in the modification or destruction of data, disclosure of sensitive information, or denial of services to users who require the information to support the mission of the CPSC. The OIG office is aware of a recently awarded contract intended to provide additional support for improving contingency planning, configuration management, and risk management capabilities in 2017.

The OIG noted 49 findings in the most recently completed FISMA review in FY 2015. Additional improvements made during FY 2016 may have been made. However, the next FISMA evaluation had not been issued at the time of the drafting of this document, and thus, its findings are not reflected in the findings set out in this document. Management's assertions regarding program improvements that have not yet been the subject of formal review by this office are included, but clearly identified as management assertions, rather than formal findings. The IT challenges currently facing the CPSC are particularly relevant as the agency continues to deal with the implementation of the Consumer Product Safety Improvement Act (CPSIA), specifically with the CPSIA's impacts

⁶This is based on the FY 2015 FISMA Review; the FY 2016 FISMA Review had not been completed at the time this document was drafted.

on the agency's IT operations. Among others, we identified the following areas as requiring improvement:

- Configuration Management: the agency lacked a comprehensive hardware/software inventory; management had not documented and implemented all of the security configurations outlined by the United States Government Configuration Baseline and the National Vulnerability Database; nor had the agency assessed the risks associated with all of the deviations from these baselines; additionally, agency systems were not patched in a timely manner.

- Identity and Access Management: the CPSC had not implemented the Principle of Least Privilege and proper segregation of duties for the GSS LAN; account modification procedures lacked proper documentation/implementation; and adequate controls had not been implemented for shared user accounts.

- Incident Response: dates and times relevant to events associated with incident resolution had not been adequately documented by management. Office of Information and Technology Services (EXIT) management states that during FY 2016, they completed a task to add dates/times to EXIT's incident tracking tool.

- Risk Management: the agency had not completed implementation of the National Institute of Technology and Standards (NIST) Special Publication (SP) 800-37 requirements regarding the management of risk from an organizational perspective; information systems outside of the GSS LAN security boundary were not accredited; and an inventory of major systems had not been defined and certified. EXIT management has indicated that they have now completed a project that defines and certifies an inventory of major systems.

- Security Training: CPSC personnel with significant security responsibilities have not been provided role-based security training.

- Plan of Actions and Milestones (POAM): POAMS were not consistently updated and the POAMs did not include all required information.

- Remote Access Management: the agency did not require encryption for remote access connections and did not monitor remote access connections, as required by Federal Information Processing Standards (FIPS) 140-2.

- Contingency Planning: the CPSC failed to develop a Business Impact Assessment, a Business Continuity Plan, a Disaster Recovery Plan, and a Continuity of Operations Plan. Furthermore, the CPSC did not formalize or test a current Information System Contingency Plan.

- Contractor Systems: Interconnection Security Agreements (ISA) were not established and/or updated for all relevant CPSC third party systems. Furthermore, an assessment of all relevant security controls associated with the systems did not occur. EXIT management has stated that they have now established or updated ISA for all systems requiring an ISA—with the exception of one system, where the hosting agency would not respond to repeated requests for ISA updates. EXIT management has also stated that they have now completed an assessment of the relevant security controls associated with contractor systems.

- Continuous Monitoring: The OIG assessed the CPSC's continuous monitoring efforts over IT security using the Information System Continuous Monitoring Maturity Model. The maturity model consists of five levels. Our assessment found that the CPSC had only achieved level one, the lowest level, in each of the domains (people, processes and technology).

Management continues to develop remediation strategies to address the known weaknesses, with a priority placed on what the EXIT informally determines to be the highest risk issues. However, the full mitigation of these risks will require a significant amount of additional effort.

Adequacy of Internal Control

This management challenge has been cited in the past and has led to significant deficiencies, including the CPSC's failure to comply with the Improper Payment Elimination and Recovery Act in 2014. This office acknowledges management's work to conduct comprehensive assessments of internal controls 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, including developing procedures to bring the CPSC into compliance with the Improper Payments Elimination and Recovery Improvement Act (IPERIA) in 2015. Consequently, 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, recent changes in the rules regarding internal controls in the Federal government have heightened the challenges facing the agency in this area.

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.

OMB Circular A-123 establishes that the GAO's Green Book is the standard that federal government agencies must follow to maintain effective internal control. The Green Book provides managers criteria for designing, implementing, and operating an effective internal control system. The Green Book defines the standards through components and principles and explains why they are integral to an entity's internal control system. The Green Book clarifies what processes are considered part of internal control. The Green Book was substantially revised in September of 2014. The revised Green Book uses the 17 underlying principles from the Committee of Sponsoring Organizations of the Treadway Commission's (COSO) revision of its Internal Control – Integrated Framework, adapting them for the federal government environment.

The 17 underlying COSO principles have been introduced to support the five overarching components of internal control, which have been carried over from the previous Green Book standards: (1) control environment; (2) risk assessment; (3) control activities; (4) information and communication; and (5) monitoring activities.

The updated Green Book aligns the 17 principles with the components of the existing internal control framework. It also identifies attributes that support the design and implementation of each of the principles.

The introduction of the underlying COSO principles in the Green Book is designed to help management of federal entities achieve an effective internal control system. Each of the Green Book's internal control framework's components contains several principles. The Federal Managers' Financial Integrity Act (FMFIA) requires federal executive branch entities to establish internal control in accordance with these standards. GAO's 2014 Green Book revision will be effective beginning with fiscal year 2016.

Historically the CPSC, as did most other Federal agencies, put far greater effort on establishing formal internal controls over financial programs than nonfinancial programs. However, the 2014 Green Book makes explicit that the same standards that govern internal controls designed to ensure accurate financial reporting also apply to internal controls designed to measure program performance in nonfinancial programs. The Green Book also includes specific and heightened documentation requirements.

Successful application of the 17 underlying COSO principles introduced in the 2014 Green Book can help the CPSC achieve effective internal control and, in turn, obtain reasonable assurance that mission objectives are achieved. However, given the heightened standards and the explicit requirement that the same standards apply to internal controls over nonfinancial and financial programs and reporting, the CPSC, and most other Federal agencies, has a great deal of work before it. This is particularly true in the

area of risk management. The CPSC's weaknesses in applying principles of Enterprise Risk Management have been noted repeatedly in past FISMA reviews. The following are actions and considerations that can help the CPSC managers responsible for implementing and overseeing an internal control program over operations, reporting and compliance comply with the 2014 Green Book revisions:

—Assess and document whether the 17 principles are already incorporated into the relevant existing internal control framework.

—Consider how principles not already part of the existing internal control framework should be designed and implemented, by reviewing the attributes of the specific principles described in the Green Book.

—Review the application material included in the Green Book that further explain the principles and attribute requirements. In some cases, the Green Book also explains more precisely what each requirement means and is intended to cover; in others, it includes examples of procedures that may be appropriate.

To date, comparisons of program's internal control systems to 2014 GAO Green Book requirements have been conducted against only three programs: Improper Payments Elimination and Reductions (IPERA), Travel Card, and Import Surveillance. These reviews have demonstrated a gratifyingly high rate of compliance. However, before these results are extrapolated to the agency as a whole, it should be noted that two of the three programs in question were financial operations and compliance type programs and one was a program specifically designed to contain a risk management function. As discussed, such programs have historically had a greater

emphasis placed on internal control than other more "operational" programs. It remains to be seen how well the agency will do at implementing the new internal control requirements within nonfinancial programs.

Budget Uncertainty

As of the drafting of this document, the CPSC is, again, operating under a continuing resolution (CR). The CR provides funding only until December 9, 2016. Because no budget has been passed, it is unclear what resources the agency will have available to meet its statutory responsibilities during FY 2017. Because CRs only provide funding until agreement is reached on final appropriations, they create uncertainty for agencies about when they will receive their final appropriation and what level of funding will be available.

The budget uncertainty brought about by a CR can result in agency management delaying hiring or contracts during the CR period, potentially reducing the level of services provided and increasing costs. If the CPSC is forced to operate under CRs for a prolonged time, agency management could be faced with additional challenges in executing the CPSC's final budget as they rush to spend funds in a compressed timeframe. At a minimum, agency management will be required to perform additional work to manage within CR constraints. This additional work could include agency officials taking actions to manage the inefficiencies resulting from CRs, including shifting contract cycles to later in the fiscal year to avoid repetitive work and providing guidance on spending, rather than allotting specific dollar amounts during CRs to provide more flexibility and reduce the workload associated with changes in funding levels.

COMBINED SCHEDULE OF SPENDING (UNAUDITED)

The unaudited SOS is a summary and comparison of how the CPSC spent (obligated) money during FY 2016 and FY 2015, detailed by the CPSC's five strategic goals. The SOS presents all budgetary resources and obligations incurred for the CPSC. The data used to populate the SOS are from the agency's accounting records and are the same data used to populate the SBR.

Schedule of Spending Line Item Title		Statement of Budgetary Resources Line Item Title
Total Resources	→	Total Budgetary Resources
Total Amounts Agreed to be Spent	→	Obligations Incurred

In the SOS and the SBR, obligations incurred include personnel compensation and benefits; contractual services; rent, utilities and others; structures and equipment; travel and transportation; and grants. The "*Total Amounts Agreed to Be Spent*" line item in the SOS agrees with the "Obligations Incurred" line in the SBR. The CPSC also reports obligation amounts to USASpending.gov. The information reported by the CPSC to USASpending.gov includes only contract obligations that are above the micro-purchase threshold and reflects only a portion of the CPSC's total obligations.

What Money Is Available to Spend

This section presents total budgetary resources that are reported in the SBR.

Total Resources refers to budgetary resources approved for spending.

Amounts Not Agreed to Be Spent represents amounts that the CPSC was allowed to spend but did not take action on by the end of the fiscal year.

Amounts Not Available to Be Spent represents amounts that the CPSC was not approved to spend during the current fiscal year.

Total Amounts Agreed to Be Spent represents spending actions by the CPSC, including salaries and benefits, travel, rent, contracts, and other legally binding agreements to pay for goods or services.

How Was the Money Spent?

This section presents the value of goods and services that the CPSC obligated for its consumer product safety program and mission support activities.

For purposes of this section, the breakdown of "How Was the Money Spent?" is based on budget object classification definitions, as defined in OMB Circular A-11.

Salaries and Benefits represent compensation, including benefits directly related to duties performed by federal civilian employees.

Contractual Services represents purchases of contractual services.

Rent, Utilities and Others represents the CPSC's purchases of contractual services for the CPSC's headquarters facility, NPTEC and SSF, and includes related utilities, security costs, printing, supplies and others.

Structures and Equipment represents the purchase of capital equipment and leasehold improvements.

Travel and Transportation represents the CPSC's payment for transportation, sustenance, and miscellaneous expenses for employees/persons on official business travel for the agency.

Grants represent the CPSC's agreement with state and local government to support the Pool and Spa safety program authorized by the VGB Act.

U.S. Consumer Product Safety Commission
Combined Schedule of Spending
For the Years Ended September 30, 2016 and 2015
(in dollars)

	2016	2015
What Money Is Available to Spend?		
Total Resources	\$ 136,293,238	\$ 136,134,887
Less Amount Available but not Agreed to Be Spent	817,352	1,120,355
Less Amount not Available to Be Spent	6,746,872	8,944,435
Total Amounts Agreed to Be Spent	\$ 128,729,014	\$ 126,070,097
How Was the Money Spent?		
Leadership in Safety		
Salaries & Benefits	\$ 8,092,559	\$ 9,545,152
Contractual Services	2,179,451	1,907,487
Rent, Utilities and Others	850,123	1,028,851
Structures & Equipment	123,563	263,729
Travel & Transportation	239,631	328,171
Grants	-	-
	11,485,327	13,073,390
Commitment to Prevention		
Salaries & Benefits	15,166,424	16,638,548
Contractual Services	8,872,374	8,904,504
Rent, Utilities and Others	2,617,035	2,781,430
Structures & Equipment	664,329	1,144,297
Travel & Transportation	204,105	196,841
Grants	-	-
	27,524,267	29,665,620
Rigorous Hazard Identification		
Salaries & Benefits	24,505,475	20,597,825
Contractual Services	17,981,113	18,933,354
Rent, Utilities and Others	3,554,920	2,967,294
Structures & Equipment	873,482	1,386,866
Travel & Transportation	408,265	326,641
Grants	-	-
	47,323,255	44,211,980
Decisive Response		
Salaries & Benefits	24,890,543	23,828,858
Contractual Services	4,141,652	3,459,117
Rent, Utilities and Others	2,964,933	3,185,181
Structures & Equipment	541,366	851,747
Travel & Transportation	550,937	536,880
Grants	-	-
	33,089,431	31,861,783

Raising Awareness

Salaries & Benefits	4,444,518	4,066,001
Contractual Services	3,019,464	2,164,890
Rent, Utilities and Others	916,071	862,279
Structures & Equipment	108,033	129,773
Travel & Transportation	37,112	34,381
Grants	781,536	-
	<u>9,306,734</u>	<u>7,257,324</u>

Total Amounts Agreed to Be Spent

<u>\$ 128,729,014</u>	<u>\$ 126,070,097</u>
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SUMMARY OF FINANCIAL STATEMENT AUDIT AND MANAGEMENT ASSURANCES

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

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

IMPROPER PAYMENTS ELIMINATION AND RECOVERY ACT REPORTING DETAILS

Improper payments are payments that should not have been made or were made in the incorrect amount, which can include duplicate payments, payments to ineligible recipients, or payments made without sufficient supporting documentation. To improve the integrity and accuracy of the federal government's payments, Congress enacted the Improper Payments Information Act (IPIA) of 2002 (Pub. L. No. 107-300). IPIA requires federal agencies to:

- Review their programs and activities annually;
- Identify programs that may be susceptible to significant improper payments;
- Estimate amounts improperly paid; and
- Report improper payment amounts and the actions taken to reduce them.

Congress passed the Improper Payments Elimination and Recovery Act (IPERA) of 2010, which amended IPIA and Section 831 of the Defense Authorization Act of 2002, also known as the Recovery Auditing Act. IPERA strengthened IPIA, by increasing management accountability and requiring additional efforts to recover improper payments. IPERA directed the OMB to issue implementing guidance to agencies. OMB Memorandum M-11-16, dated April 14, 2011, provided government-wide guidance on the implementation of IPERA. This guidance required all executive branch agencies to determine whether the risk of improper payments is significant (exceeds both 1.5 percent of program annual payments and \$10 million, or exceeds \$100 million) and to provide valid annual estimates of improper payments, if required. Other significant components of OMB's guidance include:

- Describing alternative improper payment measurements;
- Expanding payment recapture audits to all types of payments and activities with more

than \$1 million in annual outlays if cost-effective;

- Improving corrective action plans and incorporating lessons learned from the Recovery Act Implementation;
- Distributing funds recovered through payment recapture audits for authorized purposes; and
- Establishing compliance reviews and requirements for agencies deemed non-compliant.

In January 2013, Congress passed Improper Payments Elimination and Recovery Improvement Act (IPERIA) of 2012 to bolster efforts to identify, prevent, and recover payment error, waste, and fraud. The Act reinforces and accelerates the "Do Not Pay" initiative, increases emphasis on high-priority programs and establishing performance targets, and clarifies guidance for estimating improper payments. The enactment of the IPERIA of 2012 provided an opportunity for the OMB to review existing guidance and issue a compliance framework that is more unified, comprehensive and less burdensome. OMB Memorandum M-15-02, dated October 20, 2014, updates government-wide guidance on the implementation of IPERIA. This guidance is contained in Appendix C of OMB Circular A-123, *Requirements for Effective Estimation and Remediation of Improper Payments*. The new guidance provides for the following:

- Consolidates and streamlines reporting requirements for agencies and Inspectors General, and eliminates duplicative and old one-time requirements so agencies can spend less time producing compliance reports and more time focusing on game-changing solutions for achieving payment accuracy;
- Establishes new categories for reporting improper payments that provide more granularity on improper payment estimates, leading to more effective

corrective actions at the program level and more focused strategies for reducing improper payments at the government-wide level;

- Introduces a new internal control framework to ensure that payments are made in the right amount, to the right entity, and for the right purpose; and
- Provides guidance to agencies, as required by the most recent statute, IPERIA, to strengthen the statistical validity of estimates, and broadens the definition of the types of payments the agencies must consider in their analysis.

The CPSC is dedicated to continuing to strengthen its improper payments program to ensure that payments are justifiable, and processed correctly and efficiently. The program uses an experienced and trained staff, a financial management system designed with control functions to mitigate risk, and an internal analysis of processes and transactions. All executives and staff are required to comply with the CPSC's procurement and accounting policies and procedures, federal laws and regulations.

The CPSC conducts the following steps to comply with the IPERIA and OMB Circular A-123 Appendix C:

1. Reviews all programs and activities in accordance with the CPSC procedures to determine if the statutory threshold for significant improper payments is met;
2. Conducts risk assessments at least every 3 years for all programs and activities;
3. If the results of No.1 above meet the statutory threshold for significant improper payment, updates the CPSC Improper Payment Plan and submits it to OMB and the CPSC Inspector General;
4. Performs a payment recapture audit cost benefit analysis annually on whether a payment recapture audit is cost effective; if the circumstances change within the program that might make a payment recapture audit cost effective; informs the OMB and the CPSC Inspector General of the CPSC's decision on whether to

proceed with a payment recapture audit; and

5. Complies with the requirements of OMB A-136 section 11.5.8 IPIA (as amended by IPERA and IPERIA) Reporting Details.

The CPSC's Chief Financial Officer is responsible for reviewing and reporting annually the CPSC's improper payments. CPSC followed the process outlined above in FY 2016.

Review of Programs and Activities

The CPSC reviews all programs and activities in accordance with the CPSC procedures and identifies those that are susceptible to significant improper payments. Based on the review conducted using the FY 2016 disbursements, the CPSC determined that there are no payment activities based on amounts and rate that meet the definition of "significant improper payment."

Risk Assessment

CPSC conducts the risk assessment every 3 years using a questionnaire (taking into account the risk factors likely to contribute to improper payments) and an internal control evaluation. Based on the consideration of the risk factors and reliance on the internal controls in place for payment activities, the CPSC determined that there are no programs and activities susceptible to "significant improper payments," defined as those that meet the statutory threshold. The CPSC does not have payment activities that are at-risk of incurring \$10 million in improper payments because of internal controls that detect payment activities. The CPSC has robust internal controls over all of its payment activities: *i.e.*, payroll, acquisition, travel, purchase card, and disbursements. This includes important controls at multiple levels of the payment process, designed to detect and prevent improper payments. CPSC assesses these controls periodically for design and operating effectiveness as part of the CPSC's self-assessment of internal controls conducted by the CPSC management, in accordance with OMB Circular A-123 Appendix A. The results of the internal control testing in 2015 and 2016

demonstrated no weakness of the internal controls and the controls are functioning as designed. The CPSC management also concluded at that time that sufficient controls are in place to detect, prevent, and recapture improper payments.

Recapture of Improper Payments

IPERA Section 2(h) requires agencies to conduct payment recapture audits (also known as recovery audits) for each program and activity that expends \$1 million or more annually if conducting such audits would be cost-effective. A payment recapture audit is a detective and corrective control activity designed specifically to identify and recapture overpayments. The CPSC conducted a cost benefit analysis of two alternatives for payment recapture audits, exploring the use of federal staff vs. contract staff. Neither alternative was cost effective to pursue a payment recapture audit. Management informed the OMB and the agency's Inspector General of the decision in June 2016 and provided the results of the analysis that Management used to make the determination. In the future, the notification to OMB and the

agency's Inspector General will be done, only if the circumstances change within the program that might make a payment recapture audit cost effective, per OMB written instruction.

The self-reported improper payments for FY 2016 for payroll is zero and for non-payroll is around \$6,500, see Table 1 below.

Self-reported improper payments are mostly refunds on payments made in error. Of the self-reported improper payments, 91 percent are due to overpayment of invoices identified by Contracting Officer's Representative (COR) review and 9 percent are due to overpayments of travel reimbursement discovered during management conducted post audits on travel reimbursements. Although the CPSC concluded that payment recapture audits are not cost effective, the CPSC will continue to collect and/or resolve improper payments through existing financial procedures, including pre-audit of travel reimbursements, internal control review activities, internal and external audits, training of the CPSC staff and debt collection, as necessary.

Table 1 Overpayment Recaptured Outside of Payment Recapture Audits

Activity Name	2016 *Identified Amount	2016 Recovered Amount	2015 *Identified Amount	2015 Recovered Amount	Cumulative *Identified Amount	Cumulative Recovered Amount
Payroll	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Non-Payroll	6,448	6,448	5,224	5,224	11,672	11,672
Total	\$ 6,448	\$ 6,448	\$ 5,224	\$ 5,224	\$ 11,672	\$ 11,672

* These overpayments were mostly recovered within the year each overpayment was identified.

Do-Not-Pay Initiative

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

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

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

Using the DNP Business Center helps the CPSC to improve the quality and integrity of information within the financial system. In 2016, ESC engaged the DNP Analytics Services

to match vendor records with the Death Master File (DMF). The review identified high-risk vendor records possibly associated with deceased individuals and enabled the ESC to classify the vendor records into risk-based categories for further evaluation. ESC deactivated the highest risk vendor records, thereby decreasing the likelihood of improper payments to deceased individuals.

The CPSC performs post-payment reviews to adjudicate conclusive matches identified by the DNP Business Center. The monthly adjudication process is to verify payee information against internal sources, review databases within the DNP Business Center, and confirm whether the CPSC applied appropriate business rules when making payment.

Table 2 below shows payments screened by the DNP and SAM Exclusions from October 1, 2015 to September 30, 2016 and the results of those reviews. No errant payments were identified.

Table 2 Results of the Do Not Pay Initiative in Preventing Improper Payments

	Number of payments reviewed for improper payments	Amount of Payments reviewed for improper payments	Number of payments stopped	Amounts of payments stopped	Number of improper payments reviewed and not stopped	Amount of improper payments reviewed and not stopped
Reviews with the DMF only	6,453	\$ 31,796,966	0	\$ -	0	\$ -
SAM Exclusions	6,453	\$ 31,796,966	0	\$ -	0	\$ -

FREEZE THE FOOTPRINT

The CPSC is committed to the goal of reducing the total square footage of its Headquarters offices located in Bethesda, the NPTEC in Rockville, and the SSF in Gaithersburg, MD compared to its FY 2012 baseline. This reduction in square footage contributes to reducing the costs associated with real property in accordance with Section 3 of the Office of OMB Memorandum-12-12, *Promoting Efficient Spending to Support Agency Operations* and OMB Management Procedures Memorandum 2013-02, the “Freeze the Footprint” policy implementation guidance. The CPSC continues to meet its responsibilities by disposing of unneeded Federal real estate, increasing the use of under-utilized assets, minimizing operating costs, and improving efficiency.

The CPSC has implemented several initiatives that complement the goals of the Freeze the

Footprint policy including recapitalization, enhanced space planning, sustainability policies, construction of facilities, and disposal. The CPSC evaluates its real property, both through the planning process and through periodic special studies to identify spaces that are no longer needed. The Office of Facilities Management identifies requirements for space as well as space that can be returned to the lessor. Consolidations, renovations and new construction aim to utilize space and energy more efficiently.

The CPSC has reduced maintenance and utility costs by consolidating functions previously performed in these returned spaces into new, smaller spaces. Studies conducted by the CPSC on its new consolidated spaces demonstrate measurable savings in utility costs.

Freeze the Footprint Baseline Comparison	FY 2012 Baseline *	FY 2016 *	Change (FY 2012 Baseline - FY 2016)*
Headquarters	149,019	123,966	(25,053)
NPTEC	63,852	63,852	-
SSF	33,508	24,678	(8,830)

*in square feet

Reporting of Operations and Maintenance Costs – Leased Facilities	FY 2012 Baseline *	FY 2016 *	Change (FY 2012 Baseline - FY 2016)*
Headquarters	\$ 105,644	\$ 211,874	\$ 106,229
NPTEC	\$ 117,250	\$ 109,131	\$ (8,119)
SSF	\$ 17,495	\$ 42,178	\$ 24,683

APPENDICES



APPENDIX A: PERFORMANCE MEASUREMENT REPORTING PROCESS

Provides a brief description of the performance-reporting framework.

APPENDIX B: STATUTORY AUTHORITY

Provides a listing of federal statutes administered by the CPSC.

APPENDIX C: ACRONYM LISTING

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

APPENDIX A: PERFORMANCE MEASUREMENT REPORTING PROCESS

The FY 2016 Annual Performance Plan, approved by a majority Commission vote, includes planned performance measures with annual targets used for tracking progress toward achieving the strategic goals and objectives from the CPSC's 2011–2016 Strategic Plan. Each quarter, the CPSC's component organizations are responsible for reporting actual progress for each performance measure to a centralized agency Performance Management Database (PMD). A summary of the FY 2016 performance results appears on pages 7–9 of this report and the detailed performance results will be published in the FY 2016 Annual Performance Report.

Verification and Validation of Performance Data

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

1. The agency develops performance measures through its strategic planning and annual performance planning processes.
2. The CPSC's component organizations follow a standard reporting procedure to document the following information for each performance measure in the PMD:
 - the performance measure definition,
 - the rationale for the performance measure,
 - the source of the data,
 - the data collection methods and computation, and
 - data limitations.

Detailed information on each performance measure will be published in the FY 2016 Annual Performance Report and will be available on the CPSC's website located at <https://www.cpsc.gov/About-CPSC/Agency-Reports/Performance-and-Budget/>.

3. The CPSC's component organizations calculate and report data for performance measures on a quarterly basis to the Office of Financial Management, Planning, and Evaluation (EXFM), where available, using the PMD. Senior management discusses the results at the agency's SDR meetings, which are held twice a year. The final annual performance results are reviewed by EXFM and approved by management before publication.
4. During FY 2016, EXFM implemented a verification and validation process with the goal of assessing each key performance measure within a two-year cycle. Fifteen key performance measures were selected this first year from across component organizations for assessment of the quality of performance information. These assessments are intended to improve performance information, as well as meet Government Performance and Results Act (GPRA) Modernization Act requirements regarding reliability of performance data.

5. Managers of major organizational units within the CPSC submit annual statements of assurance on the operating effectiveness of general- and program-level internal controls for their areas of responsibility. Those statements of assurance identify any known deficiencies or weaknesses in program-level internal controls where they exist, including any issues with the quality of program performance-data.

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

APPENDIX B: STATUTORY AUTHORITY

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

CGBPA	Children's Gasoline Burn Prevention Act
CPSIA	Pub. L. No. 112-28 Amends the CPSIA
	Consumer Product Safety Improvement Act
CPSA	Consumer Product Safety Act
CSPA	Child Safety Protection Act
DATA Act	Digital Accountability and Transparency Act of 2014
DSA	Drywall Safety Act of 2012 Pub. L. No. 112-266
FFA	Flammable Fabrics Act
FHSA	Federal Hazardous Substances Act
FISMA	Federal Information Security Modernization 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
CNPP Act	Child Nicotine Poisoning Prevention Act

APPENDIX C: ACRONYM LISTING

AFR	Agency Financial Report
APR	Annual Performance Report
ASTM	ASTM International, former American Society for Testing and Materials
CAP	Corrective Action Plans
CBP	U.S. Customs and Border Protection
CEAR	Certificate of Excellence in Accountability Reporting
CISO	Chief Information Security Officer
COR	Contracting Officer Representative
COSO	Committee of Sponsoring Organizations
CPSA	Consumer Product Safety Act
CPSC	U.S. Consumer Product Safety Commission
CPSIA	Consumer Product Safety Improvement Act of 2008
CPSRMS	Consumer Product Safety Risk Management System
CR	Continuing Resolution
CSIRT	Cyber Security Incident Response Team
DATA Act	Digital Accountability and Transparency Act of 2014
DFR	Direct Final Rule
DHS	Department of Homeland Security
DMF	Death Master File
DNP	Do Not Pay
EPA	Environmental Protection Agency
ESC	Enterprise Services Center
EU	European Union
EXC	Office of Compliance and Field Operations
EXFM	Office of Financial Management, Planning, and Evaluation
EXIT	Office of Information and Technology Services
FFMIA	Federal Financial Management Improvement Act of 1996
FIPS	Federal Information Processing Standard
FISMA	Federal Information Security Modernization Act
FMFIA	Federal Managers' Financial Integrity Act of 1982
FOIA	Freedom of Information Act
FPPS	Federal Personnel and Payroll System
FTE	Full-Time Equivalent
FR	Final Rule
FY	Fiscal Year
GAAP	Generally Accepted Accounting Principles
GAO	U.S. Government Accountability Office
GSA	General Services Administration
GSS	General Support System
IPERA	Improper Payments Elimination and Recovery Act
IPERIA	Improper Payments Elimination and Recovery Improvement Act
IPIA	Improper Payments Information Act
IT	Information Technology
ITDS	International Trade Data System
LAN	Local Area Network
MD&A	Management Discussion & Analysis
NEISS	National Electronic Injury Surveillance System
NEHI	Nanotechnology Environmental and Health Implications

NIEHS	National Institute of Environmental Health Sciences
NIST	National Institute of Technology and Standards
NNCO	National Nanotechnology Coordination Office
NNI	National Nanotechnology Initiative
NPTEC	National Product Testing and Evaluation Center
NSET	Nanoscale Science, Engineering, and Technology
NSF	National Science Foundation
NSN	Neighborhood Safety Network
OECD	Organization for Economic Cooperation and Development
OGC	Office of the General Counsel
OIG	Office of the Inspector General
OPM	U.S. Office of Personnel Management
OMB	Office of Management and Budget
POAM	Plan of Actions and Milestones
PMD	Performance Management Database
RAM	Risk Assessment Methodology
SAM	System for Award Management
SBR	Statement of Budgetary Resources
SDR	Strategic Data Review
SoA	Statement of Assurance
SONC	Statement of Net Costs
SOP	Standard Operating Procedures
SOS	Schedule of Spending
SP	Special Publication
SSAE-16	Statement on Standards for Attestation Engagements 16
SSF	Sample Storage facility
SSP	Shared Service Provider
TIA	Tenant Improvement Allowance
TIL	Tenant Improvement Liability
TIN	Taxpayer Identification Number
VGB Act	Virginia Graeme Baker Pool and Spa Safety Act



U.S. CONSUMER PRODUCT SAFETY COMMISSION

*4330 East West Highway
Bethesda, MD 20814
<http://www.cpsc.gov>*

The Consumer Product
Safety Commission



Regulatory
ROBOT



Button Battery Dangers

A child can swallow
a button battery and
suffer *dangerous*
chemical burns
in as little as
TWO HOURS.



#PreventPoison

PORTABLE GENERATOR-RELATED CARBON MONOXIDE DEATHS

*You don't run your car indoors; don't
run your generator inside, either.*

Most deaths occur
in homes during
cold months.

Data Years: 1999-2012

