United States

CONSUMER PRODUCT SAFETY COMMISSION

Bethesda, MD 20814

OFFICE OF THE INSPECTOR GENERAL

Independent Audit Report

CONSUMER PRODUCT SAFETY COMMISSION'S FISCAL YEAR (FY) 2012 FINANCIAL STATEMENTS

Date Issued: November 16, 2012

INDPENDENT AUDIT OF CPSC'S FY 2012 FINANCIAL STATEMENTS

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Independent Auditors Report

Chairman Tenenbaum:

In accordance with the Accountability of Tax Dollars Act of 2002, we are responsible for conducting the audits of the financial statements of the U.S. Consumer Product Safety Commission. In our audits of the Commission for fiscal years 2012 and 2011, we found

- the financial statements for fiscal years 2012 and 2011, are presented fairly, in all material respects, in conformity with the U.S. generally accepted accounting principles,

- material weaknesses which resulted in a misstatement pertaining to fiscal year 2011 of (1) Cumulative Results of Operations and (2) Actuarial Federal Employment Compensation Act (FECA) Liability which effected payables and net position accounts, and other areas where internal control could be improved,

- reportable noncompliance with laws and regulations we tested.

The following sections discuss in more detail (1) these conclusions, (2) our conclusions on Management's Discussion and Analysis, and other supplementary information, (3) our audit objectives, scope, and methodology, and (4) agency comments and our evaluation.

Opinion on Financial Statements

The financial statements including the accompanying notes present fairly, in all material respects, in conformity with U.S. generally accepted accounting principles, the Commission's assets, liabilities, and net position as of September 30, 2012 and 2011, restated; and net costs; changes in net position; budgetary resources; and custodial activity for the years ended September 30, 2012 and 2011, restated.

Restated 2011 Financial Statements

The Commission has restated its financial statements for fiscal year 2011 due to material errors affecting the Commission's Balance Sheet, Statement of Net Cost, Statement of Changes in Net Position, and the accompanying notes. The restated amounts primarily relate to the omission of the Federal Employment Compensation Act (FECA) Actuarial Liability and the erroneous recording of earned revenue significantly effecting Cumulative Results of Operations (CRO). These errors occurred at a time when the Commission was developing the appropriate level of oversight over their new financial system service provider; as well as dealing with the departure of key financial management staff during fiscal year 2011 and early 2012. The Commission acknowledged in fiscal year 2011 that it had not adequately defined the division of duties between its staff and the service provider, nor had internal controls and subsequent monitoring been effectively implemented.

The Commission's restatement of the FECA Actuarial Liability and CRO affected two main components of the fiscal year 2011 financial statements:

1) Correction of Prior Year misstatements effecting Net Position

The Commission identified material errors in fiscal years 2010 and 2011 in the reporting of earned revenue from Intra-Agency Agreements (IAA) in the Direct (DPS) Fund and the Reimbursable (RPS) Fund. The Commission establishes IAA's with several Federal agencies to provide the service of coding inquiry data from the National Electronic Inquiry Surveillance System (NEISS) program, for use internally and by other Federal agencies. From this program, the Commission found $2,730,661 of revenue recorded appropriately in the RPS funds, but erroneously recorded in the DPS Funds. In fiscal years 2010 and 2011, the process of recording earned revenue was performed in a unique manner by the Commission. The process required identifying recorded payments related to the various IAAs, initially in the related year DPS fund, and transferring those amounts to the RPS Fund. However, at the end of fiscal year 2011, an error in the process caused a material understatement of the earned revenue balance. Therefore, the Commission, with the assistance of their financial service provider, posted an adjusting entry to record the earned revenue balance as of September 30, 2011. However, the adjusting entry did not take into account the funds recorded in DPS. As a result, upon the closing of the financial records at the end of fiscal year 2011, this error caused an increase in the CRO balance and a budget to proprietary relationship imbalance. To correct these errors related to earned revenue, the Commission restated their CRO balance. The Commission also restated various immaterial amounts effecting the balance sheet liabilities and unexpended appropriations. The total impact of this restatement caused unexpended appropriations to increase $3.1 million and a $4.9 million decrease in CRO.

2) FECA Actuarial Liability effecting Net Cost of Operations

In fiscal year 2011, the Commission omitted its FECA Actuarial Liability of $1,729,415.50 from its financial statements, which decreased the CRO balance as of 9/30/11. The Commission identified this material error in fiscal 2011 and issued a restatement in fiscal year 2012. This restatement was to record the omission, as required by the Department of Labor, as an unfunded liability that the Commission had not recorded in fiscal 2011. The total effect of this restatement was a $1.7 million increase in total liabilities and a simultaneous $1.7 million increase in program cost for fiscal 2011. This restatement also contributed to the changes in net position described above.

The details of the restatement are disclosed in Note 13 and Supplementary Information. To remediate the risk of recurrence, the Commission implemented improved internal controls in the third quarter of fiscal year 2012 to address the internal control deficiency that caused the material misstatement in fiscal year 2011.

Due to material errors found for the actuarial FECA liability and the CRO accounts in the Commission's financial statements, our report on the fiscal year 2011 financial statements, issued on November 15, 2011, is not to be relied upon. That report is replaced by this report on the restated fiscal 2011 financial statements. We reported the internal control deficiencies that resulted in the material weaknesses in the internal control section of this report.

Consideration of Internal Control

In planning and performing our audit, we considered the Commission's internal control over financial reporting and compliance. We did this to determine our procedures for auditing the financial statements and to comply with OMB audit guidance, not to express an opinion on internal control. Accordingly, we do not express an opinion on internal control over financial reporting and compliance or on management's assertion on internal control included in Management's Discussion and Analysis because the purpose of our work was to determine our procedures for auditing the financial statements and to comply with OMB audit guidance, not to express an opinion on internal control. However, we found the material weaknesses described below. A material weakness is a control deficiency that results in more than a remote likelihood that the design or operation of one or more internal controls will not allow management or employees, in the normal course of performing their duties, to promptly detect or prevent errors, fraud, or noncompliance in amounts that would be material to the financial statements. Our internal control work would not necessarily disclose all deficiencies in internal control that might be material weaknesses or other significant deficiencies.

Material Weaknesses

Our office identified two material weaknesses pertaining to the fiscal year 2011 financial statements.

Appendix I discusses in detail the 2 Material Weaknesses noted below.

Overstatement of Cumulative Results of Operations for Fiscal Year 2011

The Commission overstated the fiscal year 2011 CRO balance by approximately $4.9 million. The cause of this material error was the erroneous reporting of earned revenue from the NEISS program in both Direct (DPS) Funds and Reimbursable (RPS) Funds for fiscal years 2010 and 2011. The Commission's Office of Financial Services (FMFS) did not become aware of this error until the performance of a review over the CRO balance and budgetary to proprietary relationships in fiscal year 2012. The Commission found that expenses from the NEISS program in fiscal years 2010 and 2011, which were initially recorded in the DPS Fund and should have been transferred to the RPS Fund, remained in the DPS Fund. The net effect of amounts that remained in the DPS Fund was approximately $43 thousand that the Commission restated as a liability on the balance sheet. However, the Commission identified that total DPS revenue of approximately $2.8 million affected CRO as of yearend, causing an overstatement in CRO of $2.8 million. The Commission restated its fiscal year 2011 financial statements to reflect the proper CRO balance.

Omission of the FECA Actuarial Liability for Fiscal Year 2011

The Commission materially understated its balance sheet liabilities for fiscal year 2011 through the inadvertent omission of its FECA Actuarial Liability of $1,729,415.50 for fiscal year 2011. At the time of the omission, the Commission did not have adequate internal controls over financial reporting, including management review and oversight controls over their financial service provider in the reporting of FECA actuarial liability. The Commission subsequently recorded the liability in its financial statements during the third quarter of fiscal 2012. The Commission restated its fiscal 2011 financial statements to reflect the proper liabilities balance.

Further, our work identified the need to improve certain internal controls, as listed below. This deficiency in internal control, although not considered to be a material weakness, represents a significant deficiency in the design or operations of internal control, which adversely affects the entity's ability to meet the internal control objectives listed below. In addition, misstatements may occur in other financial information reported by the Commission and not be prevented or detected because of the internal control deficiency described below.

The Commission's management is responsible for establishing and maintaining effective internal controls, and for its assertion on the effectiveness of internal control over financial reporting. 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 significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Significant Deficiency over Accounts Payable and Budget Monitoring

Appendix I discusses in detail the control deficiencies, summarized below[1], that comprise the significant deficiency over Accounts Payable and Budget Monitoring.

Oversight over Payments Processed by Service Provider

The Commission does not have proper oversight controls in the Commission's Program Offices to ensure payments processed by their financial service provider are complete, accurate, and timely. We found that the Commission relies on

[1] Please note, there are seven control deficiencies listed in this report and eight detailed in Appendix I. The reason for the difference is that the two control deficiencies related to the GovTrip application are summarized together in the summary found in this report and detailed separately in Appendix I.

Contracting Officer Representatives (CORs) and Approving Officials from the Program Offices to ensure that invoices received for payment are accurate and complete. However, in interviews conducted with a sample of CORs to determine whether a standardized process had been developed and implemented to conduct the monitoring that FMFS relies on, we found that no such process had been established. The results of interviews found that CORs lack the proper training to perform the type of payment monitoring attributed to them by FMFS. This lack of training was underscored by the lack of formal guidance available to the Commission's employees in this area from the Office of Procurement Services (FMPS). Although it should be noted that FMPS was, at the time of this audit, in the process of developing such formal guidance. In addition, employees interviewed were confused about the duties of a COR versus the duties of a "Project Officer," as both terms are used interchangeably by the Commission. Therefore, employees functioning as Project Officers may not have the proper COR training to fulfill the duties expected of them by FMFS. Lastly, FMFS has not communicated the monitoring process it expects of the CORs or given the CORs the proper access to the accounting data necessary to monitor payments retroactively.

Deficiencies over Manual Travel Authorizations and Payments

The Commission needs to improve internal controls over manual travel authorization and the related payments, processed by the Commission's financial service provider. Through a review of travel payments throughout fiscal 2012, we identified various deviations from established internal controls:

- 1 travel voucher contained an improper per diem claim
- 6 travel vouchers contained improper hotel/lodging claims
- 3 travel vouchers were missing receipts or contained inaccurate receipts to substantiate claims
- 4 travel authorizations did not contain the appropriate management approval prior to travel
- 10 travel authorization for foreign travel did not contain appropriate approval from the Commission's Chairman
- 7 vouchers were not paid within 30 days, as in accordance with the Federal Travel Regulations stipulation to comply with the Prompt Payment Act; Further, no interest was paid on these vouchers
- 1 voucher was to be reimbursed by an outside source. However, at the time of our review, reimbursement had not been accomplished
- 1 voucher was paid that contained personal travel, for which the traveler did not take annual leave

The deficiencies noted above are the result of FMFS not having the proper internal controls to ensure payments made are timely, accurately, and in accordance with applicable laws and regulations. Further, FMFS management does not follow-up or consistently monitor FMFS staff or their financial service provider to ensure that internal controls are applied correctly, consistently, and in a timely fashion.

Errors found in GovTrip Application Travel Payments & GovTrip Interface Follow-up and Review

The Commission does not have adequate internal controls over travel transactions processed through the GovTrip travel web application. The lack of such controls leads to an inability to ensure the proper authorization of travel and the related travel payments are complete and accurate. Through a review of GovTrip transactions throughout fiscal year 2012, we identified the following deviations in which travelers received improper payments:

- 4 vouchers included improper claims for per diem where meals were provided
- 2 vouchers where reimbursements for rental cars were improperly claimed
- 1 voucher where the traveler claimed improper hotel/lodging rates1 voucher where the travel common carrier cost was paid by the Centrally Billed Travel Account, but also claimed as a reimbursable expense on the voucher
- 2 vouchers that were paid despite not including the appropriate receipts to substantiate claims over $75 dollars

In addition, we found that the Commission does not have proper internal controls to ensure the proper entry of GovTrip transactions in the accounting system and the proper review of the identified exception transactions. During our review of the GovTrip interface Exception report, we noted that one randomly selected exception transaction (it was identified because there were insufficient funds associated with the line of accounting used) was not followed-up on by the traveler until after the travel was completed.

The cause of the deficiencies noted above is FMFS's lack of proper internal controls to ensure payments paid are timely, accurately, and in accordance with applicable laws and regulations. Some the deficiencies also appear to be related to user errors made by Commission employees utilizing GovTrip to process their travel related claims. This raises issues related to the inadequacy of user training. Further, it appears that FMFS is relying entirely on their service provider's controls over payments. However, FMFS's position is not consistent with their financial service provider in this area. The financial service provider's SSAE 16 Report (provided by the financial service provider's auditor) states that user organizations (such as the Commission) should have "user controls" in place to "provide reasonable assurance that interface reports are reviewed and errors are timely identified and communicated to the financial service provider."

Lack of Centrally Billed Travel Account Oversight

The Commission uses a travel agent to book common carrier reservations, charging the cost of those reservations and related fees to the Centrally Billed Travel Account (CBA). However, those charges to the CBA are not reconciled to the actual travel authorizations entered into the accounting system. The Commission did not start performing a monthly CBA Reconciliation, as a means to provide oversight and monitoring over their financial service provider, until May 2012; and no other complementary control existed prior to May 2012 causing an 8-month absence of established control. We have observed that the Commission has not allocated sufficient time and resources to individual aspects of financial management, such as performing CBA reconciliation – hence the delay in implementation. As a result, FMFS did not have the proper risk management controls, in place, as required by OMB, through the first 8 months of fiscal year 2012.

Proper Accrual of Invoices at Year-end

The Commission does not have proper procedures in place to accrue for yearend payments. Through a review of disbursements after year-end (i.e. disbursements which occurred in fiscal year 2013), we identified two invoices, totaling $199,026.26, for services which were received by the Commission as of September 30, 2012 (i.e. the services were received in fiscal year 2012 and thus involved fiscal year 2012 funds), but which the Commission did not accrue in accounts payable at year-end. The reason these invoices were omitted from accounts payable is the unclear process used by the Commission to coordinate the accruing of invoices with their financial services provider. This process is further complicated by the fact that the service provider receives invoices directly from the vendor in most cases. Neither FMFS nor the financial service provider performed a proper review to anticipate the receipt of invoices after year-end and to determine the proper accounting treatment of said invoices.

Non-Performance of Budgetary Allowance Holder Reconciliations and Follow-up

The Commission has established and implemented Budgetary Allowance Holder Reconciliations as an internal control to assist in monitoring the overall budget and obligations liquidated. However, we found that the performance of these reconciliations was not consistent throughout the fiscal year. Further, although the Commission has affirmed that these reconciliations are also a secondary key control in monitoring payments by the financial service provider, they have also acknowledged that they are unsuccessful in ensuring that the reconciliations are consistently completed and performed in a timely manner. Throughout fiscal 2011, we reviewed the reconciliations performed by 46 allowance holders. From this sample, we identified 29 incomplete reconciliations (a 79 percent completion rate) for the three months reviewed (June, August, and September of fiscal year 2012). Further, we found that a significant majority of the reconciliations lacked evidence that they had been reviewed by FMFS to determine if the allowance holder had performed a proper review.

In addition to the deficiency found concerning the completion of the reconciliations, the Commission also does not perform timely follow-up on the results of those reconciliations, which are completed and result in a finding that there is a need for adjustments. We identified a reconciliation in the month of June where the amount requiring adjustment was not adjusted in a timely manner. This deficiency in internal control is caused by FMFS not fully adhering to their own Standard Operating Procedure on processing reconciliation adjustments.

Allowance Plan Notice Reconciliation

The Commission has established, but not implemented, a standard operating procedure over the Allowance Plan Notice Reconciliation to ensure the Commission's individual office budget allowances are current in the accounting system. We found that the financial service provider enters the Commission's allowances into the accounting system; thus, the performance of the reconciliation is necessary to ensure allowances entered agree to the amount approved by the Office of Planning and Budget (FMPB). We found that the Commission did not comply with its own standard operating procedure in this area. The reconciliation prepared by FMPB lacked sufficient evidence to determine whether the financial service provider made the adjustments annotated. Further, the Commission Budget Officer, as required, did not review the reconciliation.

Compliance with Laws and Regulations

In connection with our audit of the Commission's financial statements, we performed tests of compliance with certain provisions, laws, and regulations, which could have a direct and material effect on the determination of amounts in the Commission's financial statements. Except as noted below, our tests for compliance with selected provisions of laws and regulations disclosed no other instances of noncompliance that would be reportable under U.S. generally accepted government auditing standards or OMB audit guidance. However, the objective of our audit was not to provide an opinion on the overall compliance with laws and regulations. Accordingly, we do not express such an opinion.

The results of certain tests of compliance, disclosed the following two instances of non-compliance (discussed in Appendix I) required to be reported under U.S. generally accepted government auditing standard or OMB audit guidance:

- Anti-Deficiency Act, 31 U.S.C. § 1341(a)(1)(A), prohibits the making or authorizing of an expenditure from, or creating or authorizing an obligation under, any appropriation or fund in excess of the amount available in the appropriation or fund unless authorized by law.

  In connection with our audit, we identified one instance of material non-compliance with the Anti-Deficiency Act. For fiscal year 2012, Congress made an appropriation to the Commission, which contained a limitation on the use of funds. This limitation indicated that no more than $4,000 could be expended for ". . . reception and representation expenses." The evidence currently available indicates that the agency exceeded this limitation, but did so by an amount that is immaterial to the financial statements. The agency is working at meeting the statutory reporting requirements (in coordination with the Office of Inspector General) they are currently investigating the violation in order to gather the data necessary to meet the mandatory reporting requirements to the President, Congress, and Comptroller General. The Office of Management and Budget and the Government Accountability Office have been informally notified of the violation and are providing the agency guidance on how to investigate and report the violation. The Commission has already begun taking corrective action to prevent the violation from reoccurring. The Office of Inspector General will continue to monitor the Commission's actions in regards to the investigation and actions taken to prevent further occurrences. For further details about this noncompliance issue, see Appendix I.

- Prompt Payment Final Rule (formally OMB Circular A-125, "Prompt Payment"), as required by the Federal Travel Regulations (FTR)

  FTR §301-52.17 indicates that "your agency must reimburse you within 30 calendar days after you submit a proper travel claim to your agency's designated approving office. Your agency must ensure that it uses a satisfactory recordkeeping system to track submission of travel claims. For example, travel claims submitted by mail, in accordance with your agency's policy, could be annotated with the time and date of receipt by your agency." Based on our review of a control sample of travel claims, interest was not paid when payments were late, as required by the Prompt Payment Act. This deficiency was first reported as a Notice of Finding and Recommendation of the FY 2011 financial statement audit on November 15, 2011. For further details about this noncompliance issue, see Appendix I.

- Debt Collection Improvement Act of 1996 (Public Law 104-134)

  The Debt Collection Improvement Act states that a non-tax debt or claim owed to the United States that has been delinquent for a period of 180 days shall be transferred to the Secretary of the Treasury for collection or termination of collection actions. The Commission had not been properly reviewing and transferring debt related receivables resulting from individuals' failures to pay fees associated with the CPSC Freedom of Information Act program to the Department of the Treasury's Financial Management Service for collection. This deficiency was first reported as a Notice of Finding and Recommendation of the FY 2010 financial statement audit on October 25, 2010. For further details about this noncompliance issue, see Appendix I.

Consistency of Other Information

The Commission's Management Discussion and Analysis, required supplementary information, and other accompanying information contain a wide range of data, some of which are not directly related to the financial statements. We do not express an opinion on this information. However, we compared this information for consistency with the financial statements and discussed the methods of measurement and presentation with the Commission's officials. On the basis of this limited work, we found no material inconsistencies with the financial statements; U.S. generally accepted accounting principles, or OMB guidance.

Objectives, Scope, and Methodology

The Commission's management is responsible for (1) preparing the financial statements in conformity with U.S. generally accepted accounting principles; (2) establishing, maintaining, and assessing internal control to provide reasonable assurance that the broad control objectives of the Federal Managers' Financial Integrity Act are met; and (3) complying with applicable laws and regulations.

We are responsible for obtaining reasonable assurance about whether the financial statements are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles. We are also responsible for (1) obtaining a sufficient understanding of internal control over financial reporting and compliance to plan the audit; (2) testing compliance with selected provisions of laws and regulations that have a direct and material effect on the financial statements and laws for which OMB audit guidance requires testing; and (3) performing limited procedures with respect to certain other information appearing in the Annual Financial Statement.

In order to fulfill these responsibilities, we

- examined, on a test basis, evidence supporting the amounts and disclosures in the financial statements;

- assessed the accounting principles used and significant estimates made by management;

- evaluated the overall presentation of the financial statements;

- obtained an understanding of the entity and its operations, including its internal control related to financial reporting (including safeguarding assets), and compliance with laws and regulations (including execution of transactions in accordance with budget authority);

- tested relevant internal controls over financial reporting, and compliance, and evaluated the design and operating effectiveness of internal control;

- considered the design of the process for evaluating and reporting on internal control and financial management systems under the Federal Managers' Financial Integrity Act;

- tested compliance with selected provisions of the following laws and regulations:
  - Prompt Payment Act
  - Improper Payment Improvement Act, as amended by Improper Payment Elimination Recovery Act
  - Debt Collection Improvement Act
  - Anti-Deficiency Act
  - Various Pay and Allowance Acts
  - Government Management Reform Act of 1994
  - Budget and Accounting Procedures Act of 1950

We did not evaluate all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act, such as those controls relevant to preparing statistical reports and ensuring efficient operations. We limited our internal control testing to controls over financial reporting and compliance. 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 evaluation to future periods is subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with controls may deteriorate. In addition, we caution that our internal control testing may not be sufficient for other purposes.

We did not test compliance with all laws and regulations applicable to the Commission. We limited our tests of compliance to selected provisions of laws and regulations that have a direct and material effect on the financial statements and those required by OMB audit guidance that we deemed applicable to the Commission's financial statements for the fiscal year ended September 30, 2012. We caution that noncompliance may occur and not be detected by these tests and that such testing may not be sufficient for other purposes.

We performed our audit in accordance with U.S. generally accepted government auditing standards and OMB audit guidance.

Agency Comments and Our Evaluation

In commenting on a draft of this report (see Appendix I), the Commission's management concurred with the facts and conclusions cited in our report.

Restricted Use

This report is intended solely for the information and the use of the Commission's management, OMB, U.S. Government Accountability Office, and the U.S. Congress, and is not intended to be and should not be used by anyone other than these specific parties.

Christopher W. Dentel
Inspector General
U.S. Consumer Product Safety Commission

November 16, 2012

APPENDIX I

FINDINGS & RECOMMENDATIONS:
INTERNAL CONTROL MATERIAL WEAKNESSES, SIGNIFICANT DEFICIENCIES & COMPLIANCE WITH LAWS AND REGULATIONS

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Introduction

Appendix I herein describes the control deficiencies, which collectively resulted in material weaknesses and significant deficiencies, for the year ended September 30, 2012, and our recommendations.

Material Weaknesses

Our office identified two material weaknesses pertaining to the fiscal year 2011 financial statements.

(1) Restatement of fiscal year 2011Cumulative Results of Operations (CRO)

The Commission overstated the fiscal year 2011 CRO balance by approximately $4.9 million. The cause of this material error was erroneous reporting of earned revenue from the NEISS program in both Direct (DPS) Funds and Reimbursable (RPS) Funds for fiscals 2010 and 2011.

Per the Office of Management and Budget (OMB) Circular A-123, *Management's Responsibility for Internal Control*, "management is responsible for establishing and maintaining internal control to achieve the objectives of effective and efficient operations, reliable financial reporting, and compliance with applicable laws and regulations. Management shall consistently apply the internal control standards to meet each of the internal control objectives and to assess internal control effectiveness."

During fiscal year 2011 the Commission did not have effective internal controls over areas of financial reporting and management. As a result, the Commission's Office of Financial Services (FMFS) did not become aware of the error described below until a review of the CRO balance and the budgetary to proprietary relationships was conducted by the new FMFS management team during fiscal year 2012. The above described review found that in fiscal years 2010 and 2011 the Commission initially recorded expenses from the NEISS program in the DPS Fund and later, correctly, transferred them to the RPS Fund. However, the funds in question had remained in the DPS Funds as of the fiscal year 2011 yearend. The net effect of the amounts that erroneously remained in the DPS Funds was approximately $43 thousand that the Commission restated as a liability on the balance sheet. However, the Commission identified that total DPS revenue of approximately $2.8 million affected CRO as of yearend, causing an overstatement in CRO of $2.8 million. The Commission restated its fiscal 2011 financial statements to reflect the proper CRO balance. The Commission implemented improved internal controls in the third quarter of fiscal year 2012 to remediate the risk of recurrence.

Recommendations:

1. FMFS continue to develop and perform review procedures to identify abnormal balances that have not been properly recorded and/or closed on the financial statements.

2. FMFS management should continue to communicate with the financial service provider to identify and resolve such errors in a timely basis.

Management Response:
Management generally agreed with our findings and recommendations.

(2) Restatement of fiscal year 2011 Actuarial Federal Employment Compensation Act (FECA) Liability

The Commission materially understated its balance sheet liabilities through the inadvertent omission of the FECA Actuarial Liability of $1,729,415.50 for fiscal year 2011.

Per the Office of Management and Budget (OMB) Circular A-123, *Management's Responsibility for Internal Control*, "management is responsible for establishing and maintaining internal control to achieve the objectives of effective and efficient operations, reliable financial reporting, and compliance with applicable laws and regulations. Management shall consistently apply the internal control standards to meet each of the internal control objectives and to assess internal control effectiveness."

At the time of the omission, the Commission did not have adequate internal controls over financial reporting; most relevant in this case being a lack of management review and oversight controls over their financial service provider regarding the reporting of FECA actuarial liability. The Commission subsequently recorded the liability in the financial statements during the third quarter of fiscal 2012. As such, the Commission restated its fiscal year 2011 financial statements to reflect the proper liabilities balance. The Commission implemented improved internal controls in the third quarter of fiscal year 2012 to remediate the risk of recurrence.

Recommendations:

3. FMFS management should continue the performance of now established internal controls to ensure the year-end FECA Actuarial Liability review is conducted and is properly documented in a timely manner. This can be best achieved by incorporating the new improved financial reporting controls into the Standard Operating Procedure document used as part of the financial reporting process.

Management Response:
Management generally agreed with our findings and recommendations.

Significant Deficiencies

Our office identified one significant deficiency over Account Payable and Budget Monitoring pertaining to the fiscal year 2012 financial statements.

Accounts Payable and Budget Monitoring

(1) Improvement is needed over the controls regarding payments and operating expenses

a. Accounts Payable Monitoring and Control Environment

FMFS has not established strong enough controls over the payments processed by the financial service provider to ensure that the payments processed were complete, accurate, and ultimately timely paid to the vendor in accordance with OMB Circular A-123. At the time of our initial assessment of the design and implementation of internal controls, the Commission's financial service provider noted in their DRAFT SSAE 16 Report listing of "user controls," that organizations using their services (such as the Commission) should have a control in place to "provide reasonable assurance that invoice transactions entered by the financial service provider are reviewed for accuracy and transactions are reconciled to ensure the completeness of data entry." The lack of this user control was the basis of our initial finding (issued to FMFS Management on September 11, 2012). However, FMFS Management disagreed with our assessment of internal controls. FMFS Management asserted that there was a process in place to ensure that payments were processed correctly. The process asserted involves the Commission's Contracting Officer Representatives (CORs) performing the monitoring and approval over invoices. As asserted by FMFS, prior to the approval of invoices, the CORs are required to compare the invoices against the contract deliverables and Delphi web reports to determine the validity of the invoices; as well as determine the accuracy of prior payments. If no discrepancies exist between the invoices and the performance of the contracts and prior invoices, the invoices are approved for payment. After the approval of the invoices, the financial service provider is responsible for processing the payments (cutting the checks); therefore, the financial service provider receives the invoices following the Commission's approval. In addition, FMFS asserted that the CORs could access the PO Status Web Report from Delphi and use it to follow-up on the status of processed payments.

FMFS did not identify this process as an internal control until the finding was issued to FMFS (we conducted our initial assessment of internal controls over payments with FMFS on June 7, 2012). Because this process was not discussed during the initial internal control assessment, the OIG had reservations that the process described was actually functioning during FY 2012. Therefore, in response to management's non-concurrence, the OIG conducted interviews of CORs to determine whether the CORs had received the proper training to perform and were in fact performing the process described.

Our follow-up on the FMFS process described included randomly selecting 10 contracts from our 6/30/2012 review. The following contracts and "sum of payments as of 6/30/12" were selected, with the identified COR and type of contract set-out below.

	VENDORS	Total Amount of Contract Payments	Contract Number	Type of Contract
1	DELL MARKETING CORP LP	$33,446.16	CPSC-F-12-0022	One time Purchase
2	DIGITAL SOLUTIONS INC	$128,467.99	CPSC-F-05-1001	Performance
3	ENTERPRISE SVCS CNTR/DOT, FAA	$161,410.00	CPSC-I-12-0002	Performance
4	EVOKE RESEARCH AND CONSULTING LLC	$57,424.40	CPSC-D-10-0004	Performance
5	GTS-WELCO	$1,245.78	CPSC-B-96-5069	One time Purchase
6	NATIONAL DROWNING PREVENTION ALLIANCE	$289,594.53	CPSC-D-10-0008	Performance
7	RESEARCH INSTITUTE AT NATIONWIDE CHILDRENS HOSPITAL THE	$14,963.34	CPSC-N-12-0041	Performance
8	SOFTCHOICE CORPORATION	$31,2851.32	CPSC-F-11-0008	On time Purchase
9	TINDALL CATHY ANN	$4,402.31	CPSC-N-12-0017	Performance
10	VISUAL INFORMATION SYSTEM, INC	$676,817.00	CPSC-D-06-0002	Performance

Although the financial service provider performs all transactional processing for the Commission, FMFS Management is ultimately responsible for the completeness and accuracy of the financial statements. Specifically, this includes ensuring that all accounting transactions are processed completely and accurately. However, FMFS cannot rely on the CORs to perform monitoring of their respective payments without the proper training, guidance, and access to various accounting reports. Based on interviews conducted with the CORs identified above, the OIG concluded that the process described by FMFS has not been implemented and therefore could not be relied upon to ensure the completeness, accuracy, and timeliness of invoice payments processed by the financial service provider. Our conclusion is based on the following:

First and foremost, many of the CORs interviewed acknowledged not knowing the status of their approved payments after their approvals of those payments were forwarded to the financial service provider for processing. This most likely is a result of the CORs not having access to the Commission accounting system, Delphi. We noted that three out of the seven Commission personnel interviewed did not have access to the Delphi reports that they would have to have access to in order to follow-up on payments after those payments were approved and forwarded to the financial service provider. Of the three individuals with access, one individual works in FMFS and the other individuals are Funds Controllers for their offices. The only time notification is provided to the other

CORs or Project officers of possible payment issues is when the vendor contacts the Commission. So, it is reasonable to assume that most vendors would contact their COR when a payment is underpaid or overdue, but not when an invoice is over paid. Further, the methods used by CORs to approve payments are not standardized. While all CORs appear to be monitoring payments against their contract, each individual's process is different. Thus, individual CORs may not be reviewing the correct elements or criteria of invoices to ensure payments made to their vendor are accurate.

COR training also appears to be an issue. We found that all the Commission's personnel interviewed had taken some type of COR training, but not all had taken the mandatory refresher training required by the Office of Management and Budget (OMB). Some individuals could not even recall the last time they attended COR training - just that they had taken some form of training at some point in time. Specifically, we noted that the OMB recently updated their guidance in regards to COR training. Per a September 6, 2011 memorandum from OMB's Office of Federal Procurement Policy, titled "Revisions to the Federal Acquisition Certification for Contracting Officer's Representative (FAC_COR)", the requirements of COR training has changed from a one level of certification requirement (40 Continuous Learning Points (CLPs) every two years), to a three level training requirement, with refresher training completed every two years for each level. To determine whether the Commission has a training program in place, we conducted research to identify any Commission Directives or internal SOPs describing the policy in place. Our research found that currently there is no guidance readily available to the Commission's staff. Therefore, we found it necessary to inquire of FMPS (Office of Procurement Services), as to whether there was a Commission directive or internal policy in place covering this new training requirement. Our inquiry of FMPS found that the Director of FMPS is currently drafting a directive/policy regarding COR training, but it is not yet complete. However, we noted that the new FAC-COR training requirements became effective, as of January 1, 2012.

Lastly, we noted that there is an issue with identifying the responsible CORs and/or point of contacts for contracts. We found that the Commission uses the "Project Officer" and COR designations interchangeably. The Commission has directed, in the Commission's Directive, 1522.1 Appendix G, that the "Project Officer shall function as COR after the award of the contract." However, our interviewees believe that the two designations were different. For example, one COR described a Project Officer, as the individual who to manages a particular project of a contract from an operations perspective, but does not necessary oversee contract performance or get involved in the financial aspects of contract. Again, internal agency training may be the cause for such confusion. For example, in determining the appropriate CORs to interview, we noted at least two occasions where the identified COR relied on the "Project Officer" to monitor payments; and of the two Project Officers, one had never taken COR training.

Recommendations:

4. FMPS should complete the drafting of their training guidance as soon as possible. For the training program developed, FMPS should ensure that the program adheres to the current OMB FAC-COR requirements.

5. Following the completion of the training guidance, FMFS, with the assistance of FMPS, should identify the CORs (and Project officers) for all active Commission contract mechanisms. For all individuals identified, FMPS should provide training to clarify their COR responsibilities. In addition, FMPS should maintain a listing of all CORs which should be updated periodically and tracked to ensure new CORs receive timely training and that current CORs receive refresher timely training. This listing should be shared with FMFS periodically to ensure invoices are reviewed and approved by the appropriate personnel.

6. To ensure proper communication of the FMFS monitoring process, FMFS should be involved in the provision of the training to the CORs. To ensure the performance of monitoring on a consistent basis among the various Commission Program Offices, we recommend that FMFS develop a homogenous process for all offices to follow. To assist in the process, we recommend that they develop a monthly checklist or reconciliation for completion by each program office. Ultimately, whatever the chosen process for the Commission's CORs to follow, we recommend that FMFS ensure that Program Offices maintain all documentation of their monitoring.

7. FMFS should ensure that all individuals with COR responsibilities have access to Delphi web reports to use while fulfilling the review and reconciliation portions of their responsibilities.

Management Response:
Management generally agreed with our findings and recommendations.

b. Deficiencies over Manual Travel Authorizations and Payments

The Commission needs to improve internal controls over manual travel authorizations and the related payments processed by the Commission's financial service provider. The cause of the deviations from established internal controls and compliance detailed below is FMFS's lack of the internal controls necessary to ensure that payments paid are timely, accurately, and in accordance with applicable laws and regulations. Further, FMFS management does not follow-up or consistently monitor either their own staff's or their financial service provider's performance of the existing internal controls in this area to ensure that those controls are performed consistently, applied correctly, and in a timely fashion. The OIG acknowledges that as of May 2012, FMFS has ceased the use of manual travel authorization forms and vouchers for international and domestic travel. As such, the processing of all travel going forward will be through the web application GovTrip. While the use of GovTrip will eliminate some of the deficiencies noted during our review, we still identified the need for the FMFS division to strengthen internal controls over travel and the GovTrip application (see section "c" below, for discussion of GovTrip related issues).

Through a review of travel payments throughout fiscal 2012 (periods 3/31/2012, 6/30/12, & 9/30/2012), we identified various deviations from established internal controls and compliance with Federal travel laws and regulations:

I. *3/31/2012*

a) Manual travel authorization 12-C2438002 for $2,744.20, was not appropriately approved by the Commission's Chairman, as required by the Commissions Directive 1300.1, Travel Policy, Foreign Travel (16)(a) Procedures and Federal Travel Regulations (FTR) §301-71.103, which mandates that the proper authorizing official must grant authorization on all travel authorizations.

II. *6/30/2012* – The OIG identified the following issues regarding the authorization and payment of manual travel authorizations: lack of adherence to the Commission's policies and procedures, failure to comply with the FTR, and failure to make timely payment of travel vouchers as stipulated by the Prompt Payment Act.

a) Thirteen instances were identified where foreign travel did not receive authorization from the Chairman's office, as required by the Commission's Directive 1300.1, Travel Policy, Foreign Travel (16)(a) Procedures and FTR §301-71.103, which mandates that the proper authorizing official must grant authorization on all travel authorizations.

b) Four instances were identified where the travel obligations were approved after the trip date. Per FTR §301-2.1, "generally you must have written or electronic authorization prior to incurring any travel expense. If it is not practicable or possible to obtain such authorization prior to travel, your agency may approve a specific authorization for reimbursement of travel expenses after travel is completed. However, written or electronic advance authorization is required for items in §301-2.5(c), (i), (n), and (o) of this part."

c) Four instances were identified where employees self approved their travel authorizations, which does not comply with FTR§301-2.1.

d) Seven instances, where the vouchers were not paid within 30 days, as required by the FTR and the Prompt Payment Act. Per FTR §301-52.17 ,"your agency must reimburse you within 30 calendar days after you submit a proper travel claim to your agency's designated approving office. Your agency must ensure that it uses a satisfactory recordkeeping system to track submission of travel claims. For example, travel claims submitted by mail, in accordance with your agency's policy, could be annotated with the time and date of receipt by your agency." The most extreme case of late payment involved a voucher that was paid 299 days later (see compliance with laws and regulations section below).

e) One instance, voucher 12-C2430350, where the traveler claimed per diem for a one-day trip. Per FTR §301-11.1 an employee is eligible for an allowance if they are in a travel status for more than 12 hours, but per FTR §301-11-10, the travel claim must be annotated if the travel is more than 12 hours. The employee failed to either document the times of travel or annotate on their travel claim the hours that were over a 12-hour period.

f) Six instances where the traveler improperly claimed reimbursement for hotel/lodging expenses. Specifically, we identified instances where the traveler claimed more than the authorized maximum reimbursement. Per FTR §301-52.2, "when you are authorized a reduced per diem, you must state the reduced rate your agency authorizes on a daily basis."

- GovTrip voucher 0S2S72: The employee claimed the full allowance of $99 for lodging. Receipts only validate lodging of $82.50. The employee was overpaid $16.50 per day for 6 days resulting in an overpayment of $99.

- GovTrip voucher 0SMQZS: The employee claimed max travel lodging of $83, but the actual rates were $79. With additional missing receipts (discussed below), the voucher was overpaid a total of $144.

- Voucher 12-C2430009: The employee claimed hotel tax of $31.30 for 3 days, but the receipt does not list any taxes being paid, resulting in an overpayment of $93.90.

- Voucher 12-C2431615: We noted the approved rate increase request was quoted to include all taxes and breakfast, but full per diem was claimed for each stay. The employee was overpaid $72, $18 per day for four days.

- Voucher 12-C2438501: The employee's claim for hotel stay exceeded the per diem rate of $99 per day. The employee claimed $189 per day for 2 days, resulting in an overpayment of $198. The employee also improperly claimed and was reimbursed for a $4.32 "private bar food" transaction, bringing the total overpayment to $202.32.

- Voucher 12-C2438602: The employee sought and received reimbursement for taxes and service charges in addition to foreign lodging. Per §301-11.27 separate claims for lodging taxes incurred are not allowed. Travel voucher was overpaid a total of $214.55

g) Three instances, where the traveler did not provide accurate receipts to substantiate claims. Per FTR §301-52.4, ". . . you must provide receipts for any lodging expense; any other expense costing over $75. If it is impracticable to furnish receipts in any instance as required by this subtitle, the failure to do so must be fully explained on the travel voucher. Mere inconvenience in the matter of taking receipts will not be considered."

- GovTrip Voucher 0S8V1J: The employee could not provide a receipt to substantiate parking charges of $88. Since a receipt could not be provided the transaction is unsupported and found to be invalid. The voucher was overpaid $88.

- GovTrip Voucher 0SMQZS: In addition to the travel advance received and improper lodging claims, we noted the employee could not find a $120 receipt for parking, so he itemized daily parking to bring the parking transactions below the required receipt amount.

- Voucher 10-C2438328: The employee labeled a transaction on the voucher as a baggage fee, as an attempt to claim reimbursement, but the receipt states the charge was for a flight upgrade. Since there was no authorization for the upgrade, the transaction is not allowed and the $69 is an overpayment.

h) The Commission was not reimbursed in a proper and timely fashion for the following incidents:

- GovTrip voucher 0SMQZS: The employee received a travel advance on 3/28/2012, the trip was postponed until 7/8/2012, but the advance was not repaid. Per FTR §301-51.203 travel advances are to be repaid if a trip is canceled.

- Voucher 12-C2431616: The obligation stated that an outside source, APEC, was to refund all costs associated with travel and lodging. As of 10/1/2012, the financial service provider had not received reimbursement for the associated expenses. The Commission is due a total $1,097.49.

i) Voucher 12-C24300001: The employee charged a ticket to Paris, France to the CBA, while noting personal leave on the travel voucher for period 12/7/11 - 12/11/11. Through a review of the QuickTime leave system, we also discovered the employee did not take annual leave. This has been turned over to the IG for further investigation, due to the nature of the travel.

III. *9/30/2012*

- Voucher 12-C24303400: The authorization was approved after the period of travel, which does not comply with FTR §301-2.1.

- Voucher 12-C2438102: The authorization did not receive proper approval from management for travel, which does not comply with FTR§301-2.1.

Recommendations:

8. FMFS should strengthen internal controls over the processing of travel expenditures and relevant employees should receive appropriate training on these controls. This can be accomplished through the creation of a written SOP that defines FMFS' responsibilities that are not expressed in the current Commission's directives.

9. Travel authorization and vouchers should have a second level of review performed on them to ensure the performance of all internal control reviews prior to the submission of payment.

10. FMFS should develop new policies and procedures for travelers/employees to reference to ensure that they comply with FMFS's established internal controls and establish an internal SOP to ensure complete, accurate, and compliant processing of travel authorization and payments in GovTrip. FMFS management must rigorously enforce compliance within FMFS of all policies and procedures related to the review of travel authorization and payment.

11. FMFS should follows-up on each condition item listed above that mentions either an overpayment of per diem or reimbursements due to the Commission, and recoup the unallowable reimbursement paid or seek the reimbursement due.

12. FMFS should develop training tools and require refresher training for supervisors, authorizing, and approving officials that identifies these individuals' responsibilities and the legal and regulatory requirements for issuing travel authorizations and approving travel claims for transportation, subsistence, and miscellaneous expense allowance in accordance with the FTR and other applicable regulations.

Management Response:
Management generally agreed with our findings and recommendations.

c. Errors found in GovTrip Application Travel Payments

The Commission does not have adequate controls over travel transactions processed through the GovTrip travel web application to ensure that such travel is properly authorized and that the related payments are complete, accurate, and in accordance with the FTR. Through a review of GovTrip transactions throughout fiscal year 2012 we identified the following deviations:

- GovTrip voucher 0SJYLY: The hotel receipt states that breakfast was included in the lodging expense, but the employee claimed full per diem for each day rather than reducing the per diem claimed to take into account the breakfast that was already paid for by the Government. Based on the M&IE rate of $71, breakfast per diem equates to $11 a day. Traveler claimed full per diem for 3 days, thus voucher was overpaid by $33.

- GovTrip voucher 0RS9U7: The employee entered the rental car charge twice on his voucher and was paid for both the correct charge and the duplicate one. As a result, the employee was overpaid in the amount of $85.05 for rental car charges.

- GovTrip voucher 0S238S: The employee claimed the maximum lodging rate allowed, $221 a night, versus the actual cost of $149.99 a night, for 4 nights; resulting in an overpayment of $284.04. The employee also claimed lodging taxes of $20 a night versus the actual taxes paid of $16.91 a night, for 4 nights; resulting in an overpayment of $12.36. The employee received a total overpayment of $296.40.

- GovTrip voucher 0S24GX: The employee's flight and associated fees were charged to the CBA (and thus paid by the Government directly), but were claimed as personal expenses by the employee. The flight totaled $187.40 with fees totaling $43. The employee received a total overpayment of $230.40.

- GovTrip 0SCBR7: The employee claimed a total of $242.48 in rental car charges, but the receipts only justified charges of $166.48. The employee was overpaid a total of $76.

- GovTrip voucher 0SA8EC: The travel authorization states breakfast was included for 3 days, but the employee claimed full per diem on his travel voucher. The employee was overpaid a total of $33.

- GovTrip voucher 0S9GFJ: The travel authorization states breakfast was included for 4 days, but the employee claimed full per diem on her travel voucher. The employee was overpaid a total of $44.

- GovTrip voucher 0S9W70: The travel authorization states breakfast was included for 4 days, but the employee claimed full per diem on her travel voucher. The employee was overpaid a total of $48.

- GovTrip voucher 0S858I: The employee could not provide receipts for two cab rides, one in the amount of $75, the other in the amount of $85, but was paid anyway, resulting in the employee receiving an over payment of $170.

- GovTrip voucher 0SHWYY: The employee claimed he was entitled to reimbursement for four baggage claims of $75 each, three receipts show actual charges of $25 each, an overpayment of $150; there was no receipt submitted to substantiate the 4th $75 claim. The employee was overpaid a total of $225.

Recommendations:

13. FMFS should strengthen controls over payment authorizations to ensure proper validations of approved payments are made. To ensure internal controls are in place over GovTrip and that reimbursed travel costs are made in accordance with the FTR, including the use of per diem rates for meal expenses, FMFS should develop a written internal SOP. Any new internal controls developed should be communicated to all GovTrip users to ensure accurate execution.

14. FMFS should follows-up on each condition item that mentions either an overpayment of per diem or reimbursements due to the Commission, and recoup the unallowable reimbursement paid.

15. FMFS should develop training tools and require refresher training for all GovTrip users, supervisors, authorizing and approving officials. These training tools should identified the responsibilities of the various individuals involved in the process and the legal and regulatory requirements for issuing travel authorizations and approving travel claims for transportation, subsistence, and miscellaneous expense allowance in accordance with the FTR and other applicable regulations.

Management Response:

Management did not concur with our findings and recommendations. The primary reason for non-concurrence was management's view that the primary responsibility for the travel program lies with the approver of the travel voucher and not FMFS. The power to inspect and check and disapprove travel vouchers and requests for travel rest with the approving officials to whom the travel vouchers and documents were forwarded for review.

Management argues that in cases where the approving officials failed to spot the errors, the ESC agreement provides for post payment audit of certain transactions. Management believes that FMFS does not have a responsibility to audit travel vouchers nor have the competency or resources to enable them to perform the audit of travel vouchers effectively. For this very reason, the Commission's contract with the Department of Transportation provided for the performance of this function. The statement of work with the Department of Transportation indicates the services provided which include: help desk support for answering phone calls and helping the Commission's travelers with GovTrip, process manual corrections including rejects, post payment audit of 20% of vouchers, all foreign vouchers, and all vouchers over $3,500. The above criteria were agreed upon by the Commission's management upon implementation of GovTrip as a reasonable oversight for travel vouchers and is benchmarked with other Agencies serviced by ESC considering the cost benefit of oversight.

Financial Service Provider Response:
With any e-Travel voucher claim, the responsibility lies with the traveler to submit authorized claims and provide all proper receipts required per the FTR. Additionally, the Approving Official must review and approve the travel claim and ensure all associated receipts are attached. ESC performs post audits of CPSC's travel vouchers based on the criteria agreed upon between CPSC and ESC, which is stated above. The vouchers identified in the "Condition" section of this report, were not part of the random sample that ESC received from Northrop Grumman (GovTrip) to perform a post audit. However, since this audit identified discrepancies, ESC is in the process of performing post audits of those vouchers and will work with CPSC (FMFS) to determine which ones will require repayment for over claims. Additionally, ESC offers GovTrip training based on CPSC's needs. Basically, if CPSC requests training, ESC will provide training if there are enough students to justify travel and transportation to and from the training location.

Auditor Response:
Management's response fails to take into account that the ultimate responsibility for the funds appropriated to the Commission rests with the Commission and that the mechanisms currently in place to provide internal control over the use of these funds are clearly inadequate. Although the recommendations made by the OIG are not the only way that these inadequacies can be dealt with, clearly some additional action should be taken.

d. GovTrip Application Interface Follow-up and Review

The Commission does not have proper internal controls to ensure that GovTrip transactions are properly entered in the accounting system and that identified exception transactions are properly reviewed. During our review of the GovTrip interface Exception report, we noted that one randomly selected exception transaction was not followed-up on by the traveler until after the travel was completed. The travel authorization was rejected on 10/13/2011 due to insufficient funds. Management did not reapprove the authorization until 11/18/2011; far past the actual trip date of 10/12/2011. In further inquiry of the financial service provider, we found that when GovTrip transactions are "flagged" as erroneous transactions for various reasons, GovTrip sends a notification email to the traveler for correction. However, the financial service provider noted that they do not view the email that GovTrip sends to the traveler. The identification of the exception transaction was due to insufficient funds with the line of accounting used.

FMFS management stated it is the financial service provider's responsibility to handle all exceptions derived from the GovTrip system. Further, FMFS does not review or even request a copy of the exception report. FMFS does not receive nor review the exception report generated by the financial service provider because FMFS management feels it is appropriate to rely solely on the financial service provider's controls. However, this approach is contradicted by the financial service provider upon whom they are relying.

The financial service provider's SSAE 16 (provided by the financial service provider's auditor) states that user organizations (such as the Commission) should have "user controls" in place to "provide reasonable assurance that interface reports are reviewed and errors are timely identified and communicated to the financial service provider."

In this particular instance, we were unable to determine why the traveler did not correct their authorization in GovTrip prior to travel to allow for proper management approval. However, based on previous GovTrip issues we have identified, it is reasonable to assume that the Commission's users of GovTrip have not received appropriate training from FMFS. Further, it appears that FMFS is relying entirely on the financial service provider's controls over payments. FMFS Management has stated that the Commission pays the financial service provider to ensure the processing of all payments is complete and accurate. However, FMFS's position is not consistent with the financial service provider's position in this area. The financial service provider has informed its customers, including the Commission, that user consideration controls (internal controls/monitoring by its customers) are necessary in this area. Because of the Commission's over reliance on the financial service provider, FMFS has not created and implemented any appropriate internal controls over payments to ensure completeness and accuracy.

Recommendation:

16. To ensure the validations of approved payments are proper, FMFS should strengthen controls over payment authorizations. Thus, FMFS should develop an internal SOP to ensure internal controls are in place to ensure the timely correction of GovTrip exceptions. Any new internal controls developed should be communicated properly to all GovTrip users through proper training to ensure that they are effectively implemented.

Management Response:
Management did not agree with our findings and recommendations. It is their view that the GovTrip system is a highly integrated system and is interfaced directly to Delphi to enable timely feedback of transaction processing to the users. FMFS doesn't have control over the system exception report nor are they currently receiving notification of those exceptions. According to the ESC Travel Management team, the system in place represents ESC's best practices with their operating agencies as the notifications are sent 4 times a day and ESC has a group of people in-charge of monitoring these exceptions. The control over the exception is that the traveler will not be able to seek reimbursement without correcting the exception noted on the document being interfaced to Delphi. This is no different than processing a Requisition/Obligation in Delphi with insufficient funds. FMFS doesn't get notified in either case. Normally ESC notifies the Commission's staff who submitted the document and they work to get funding from the people who handle the management of funds for their organization.

It is FMFS's position that the system is working as designed and only authorized personnel are correcting the exceptions and only authorized transaction that are free of errors are entered into the system. It is FMFS's management's position that they don't have control over the timely performance of functions of other Commission Staff.

Beginning in May 2012, FMFS began running a report titled "Unposted Journals" report at month-end to ensure that there are no transaction on hold somewhere. Normally, if a transaction has an exception, it will remain unposted until the exception has been addressed. FMFS management states that they have not encountered any unposted transactions since they started running the report.

Auditor Response:
Management's response fails to take into account that the ultimate responsibility for the funds appropriated to the Commission rests with the Commission and that the mechanisms currently in place to provide internal control over the use of these funds are clearly inadequate. Although the recommendations made by the OIG are not the only way that these inadequacies can be dealt with, clearly some additional action should be taken.

e. Lack of Centrally Billed Travel Account (CBA) Oversight

The Commission did not start performing monthly CBA Reconciliations as a means of providing oversight and monitoring over their financial service provider until May 2012; and no other complementary control existed prior to May 2012 causing an 8-month absence of established control. At the time our initial assessment of the design and implementation of internal controls over CBA: (1) the Commission had not developed written oversight procedures to review the monthly CBA charges submitted by the financial service provider; and (2) although the financial service provider performs the CBA reconciliation, at the time of our initial inquiry, FMFS was not performing a review of the CBA charges against the corresponding travel authorizations to identify unauthorized charges or trips that have been canceled.

The lack of a CBA reconciliation prior to May 2012 did not coincide with the user controls stipulated by the financial service provider. Per the DRAFT SSAE 16 listing of "user controls," provided by the financial service provider's auditor, user organizations (such as the Commission) should have a control in place to "provide reasonable assurance that invoice entries related to Centrally Billed Accounts are reviewed."

To substantiate FMFS' statement that the CBA control had been placed into operation as of May 2012; the OIG obtained and reviewed the June 2012 CBA Reconciliation. Our review indicated that as of that date, the control was not fully executed. Based on follow-up with a FMFS Accountant, the review performed in June 2012 did not include proper follow-up of manual travel transactions against the CBA – follow-up only occurred with Gov-trip transactions. While we acknowledge that FMFS has ceased the use of manual travel transactions and that the web application GovTrip has been used to process all travel since May 2012; all transactions charged to the CBA, regardless of type, should be reviewed.

Recommendations:

17. FMFS should continue to develop and hone oversight procedures in this area. Specifically, we recommend the monthly review of all CBA charges submitted by the financial service provider. The procedures developed to govern this review should include that FMFS: (1) review the CBA reconciliation performed; (2) align transactions charged to the CBA to approved obligations; and (3) maintain all supporting documentation of the review and follow-up of all transactions. The procedures developed should include a requirement that the Agency Program Coordinator conducting the review and the individual performing the supervisorial review both document their actions by signing off on their work product.

Management Response:
Management generally agreed with our findings and recommendations.

f. Proper Accrual of Invoices at Year-end

The Commission does not have proper procedures in place to accrue for yearend payments. Through a review of disbursements after year-end (i.e. disbursements which occurred in fiscal year 2013), we identified two invoices, totaling $199,026.26, for services which were received by the Commission as of September 30, 2012 (i.e. the services were received in fiscal year 2012 and thus involved fiscal year 2012 funds) but which the Commission did not accrue in accounts payable at year-end. Per Statement of Federal Financial Accounting Standards (SFFAS) No.5, *Accounting for Liabilities of the Federal Government*, a liability should be recorded for two types of transactions: exchange and non-exchange. An exchange transaction arises when each party to the transaction sacrifices value and receives value in return. There is a two-way flow of resources or of promises to provide resources. In an exchange transaction, a liability is recognized when one party receives goods or services in return for a promise to provide money or other resources in the future. Further, a non-exchange transaction arises when one party to a transaction receives value without directly giving or promising value in return. There is a one-way flow of resources or promises. For federal non-exchange transactions, a liability should be recognized for any unpaid amounts due as of the reporting date. Per SFFAS No. 5 guidance, the two transactions are considered exchange transactions; therefore, they should have been accrued in accounts payable as of year-end. Details regarding the invoices follow:

- The Widmeyer Communications Invoice for $20,712 was, per the contract service agreement, for services related to "Deliverable 9". The services provided were for the period ending 9/30/12. The date of the invoice was 10/4/12 and the invoice was received by the financial service provider on 10/8/12. However, payment of the invoice did not occur until 10/16/12 and it was not accrued as of 9/30/12, i.e. in the fiscal year when the services were provided.

- Armedia Invoice for $178,314.26 was, per the contract agreement, for services related to "Data and Process Analysis for CPSRMS". The services provided were from 9/1/12- 9/30/12. The date invoice was 10/4/12 and the invoice was received by the financial service provider on 10/11/12. However, payment of the invoice did not occur until 10/18/12 and it was not accrued for as of 9/30/12, i.e. in the fiscal year when the services were provided.

The reason these invoices were omitted from accounts payable is the unclear process used by the Commission to coordinate the accruing of invoices with their financial services provider. This process is further complicated by the fact that the service provider receives invoices directly from the vendor in most cases. Neither FMFS nor the financial service provider performed a proper review to anticipate what invoices would be received after year-end and to determine the proper accounting treatment of said invoices. As results of the invoices not being properly accrued, the accounts payable balance as of September 30, 2012 is possible understated by$328,080.39

Recommendation:

18. FMFS should revise the process for year-end accrual of invoices. This revised process should include performing a review of invoices received internally and with the financial service provider after year-end, but related to the closed fiscal year. This process should be developed to allow the Commission to accurately present liabilities recorded for the agency as of 9/30/12. Further, it is appropriate to note that it is best business practice to allow one to two weeks after year-end, to ensure receipt of all invoices related to year-end. This should allow the financial service provider and FMFS to employ the proper methodology for accounting for potential liabilities. If the invoice in question relates to goods or services that occurred during the past fiscal year, the payment of the invoice relates to the current year expenses, thus accrued. If the invoice in question relates to goods or services that occurred in the next fiscal year it can be paid directly out of that fiscal year's funds.

Management Response:
Management generally agreed with our findings and recommendations.

g. *Non-Performance of Budgetary Allowance Holder Reconciliations & Follow-up*

The Commission has established and implemented Budgetary Allowance Holder Reconciliations as an internal control to assist in monitoring the overall budget and obligations liquidated. The Commission has developed SOP #142 – *Monthly Reconciliation Process*, which details the monthly reconciliation process. Per SOP #142 procedure 3.4, each Funds Control Officer (FCO) submits a reconciliation package to FMFs and FMPB." Further, procedure 4.2 "The Director of FMFS initials and dates the reports and does a preliminary review of the types of adjustments and to see if any outstanding issues are still unresolved. However, we found that these reconciliations were not performed consistently throughout the fiscal year. Further, although the Commission has affirmed that these reconciliations are also a secondary key control in monitoring payments by the financial service provider, they have also acknowledged that they are unsuccessful in ensuring that the reconciliations are consistently completed and performed in a timely manner. Throughout fiscal 2011, we reviewed the reconciliations performed by 46 allowance holders. From this sample, we identified 29 incomplete reconciliations (a 79 percent completion rate) for the three months reviewed (June, August, and September of fiscal year 2012). We noted the following deviations for the performance of the control:

- June 2012 –
  - 10 out of 46 reconciliations were not performed or received by FMFS.
  - of the reconciliations received by FMFS, 31 did not contain evidence of review by FMFS.

- August 2012 –
  - 7 out of 46 reconciliations were not performed or received by FMFS.
  - Of the reconciliation received by FMFS, 39 reconciliations did not contain evidence of review by FMFS.

- September 2012 –
  - 12 of 46 reconciliations were not performed or received by FMFS.
  - Of the reconciliations received by FMFS, 34 reconciliations did not contain evidence of review by FMFS.

In addition to the deficiency found with regards to the completion of the reconciliations, the Commission also does not perform timely follow-up on the results of those reconciliations which are completed and result in a finding that there is a need for adjustments. FMFS's SOP #142, Section 4.9 states that "The Reconciliation Coordinator prepares the corrections for the financial service provider to enter in the financial system once proper documentation is received. The corrections will be sent to the financial service provider with proper documentation such as through the financial service provider reclassification spreadsheet, an annotated 154 or 154 report, e-mail, or other documentation." We identified a reconciliation in the month of June where the amount requiring adjustment was not adjusted in a timely manner. This deficiency in internal control is caused by FMFS not fully adhering to their own SOP on processing reconciliation adjustments.

Recommendations:

19. FMFS should reinforce that all the Commission's offices are required to perform allowance holder reconciliations monthly, as stipulated by the Commission's policy. If necessary, establish alternative procedures for non-compliant offices.

20. FMFS should ensure that all reconciliations received are reviewed and signed off by the reviewer.

21. FMFS should ensure that all reconciliations are time and date stamped to verify the timeliness of the reconciliations.

22. FMFS should strengthens its controls over budget reclassifications by monthly submitting to the financial service provider a complete listing of all budget reclassifications requested from the Commission's Funds Control Officers. This should be followed up with a confirmation from the financial service provider once adjustments have been made in Delphi.

23. FMFS should develop follow up procedures to verify that reclassifications have actually been processed after a confirmation of their processing has been received from the financial service provider.

24. FMFS management should perform a detailed review of all requested reclassifications. This detailed review should be evidenced by management's sign off.

Management Response:
Management generally agreed with our findings and recommendation.

h. Allowance Plan Notice Reconciliation

The Commission has established, but not implemented, a standard operating procedure over the Allowance Plan Notice Reconciliation to ensure the Commission's individual office budget allowances are current in the accounting system. We found that the financial service provider enters the Commission's allowances into the accounting system; thus, the performance of the reconciliation is necessary to ensure allowances entered agree to the amount approved by the Office of Planning and Budget (FMPB). Per SOP #142, *Monthly Reconciliation Process* Steps, 1.1 – 1.3 "The Allowance Issuer e-mails the table of allowance changes to the financial service provider, copying necessary FMS and FMPB staff; the financial service provider enters the allowances in Delphi and 'replies all' when complete; The Allowance Issuer verifies that the allowances are correct in Delphi after changes are made (quarterly or interim)." We found that the Commission did not comply with its own standard operating procedure in this area. The reconciliation prepared by FMPB lacked sufficient evidence to determine whether the financial service provider made the adjustments annotated. Further, the reconciliation was not reviewed by the Commission Budget Officer, as required.

Recommendations:

25. FMPB should take the following steps to strengthen controls related to the reconciliation process of budgetary Allowance Plan Notices:
    - After the financial service provider has confirmed the allowance notice has been properly entered into Delphi, The Budget Analyst should compare the funds for each Commission office to the Delphi 3035 *Status of Budget Allotments Report* for completeness and accuracy.
    - If there are any differences that exist between any of the Commissions' funds and the Delphi 3035 report, the Budget Analyst should work with the financial service provider until all line items have been entered correctly.
    - After the Budget Analyst has reconciled the two reports, the reconciliation should conclude with evidence of review in the form of a signature from the Budget Analyst followed by evidence of a review by the Budget Officer.

26. FMFS should perform this reconciliation anytime the financial service provider makes changes to allowances in the Delphi system.

Management Response:
Management generally agreed with our findings and recommendation.

Compliance with Laws and Regulations

i. Anti-Deficiency Act

In connection with our audit we identified one instance of material non-compliance with the Anti-Deficiency Act. According to Commission officials this violation involved the expenditure of funds for official reception and representation purposes in an amount that is immaterial to the financial statements. The Anti-Deficiency Act at 31 U.S.C. § 1341(a)(1)(A), prohibits the making or authorizing of an expenditure from, or creating or authorizing an obligation under, any appropriation or fund in excess of the amount available in the appropriation or fund unless authorized by law.

For fiscal year 2012, Congress made an appropriation to the Commission which contained a limitation on the use of funds. This limitation indicated that no more than $4,000 could be expended for, ". . . reception and representation expenses." Thus, for the purposes of the Anti-Deficiency Act, the amount available to the Commission to expend for reception and representation purposes was $4,000 and any expenditure in excess of $4,000 is in violation of the Anti-Deficiency Act. The evidence currently available indicates that the agency exceeded this limitation, but did so by an amount that is immaterial to the financial statements[1].

[1] Based on the best evidence available to date, it appears that the agency exceeded their limitation by an amount in excess of $1,000 and less (most likely substantially less) than $10,000.

The exact cause and nature of this violation is still under investigation. However, it appears that weak internal controls and the failures of several employees to comply with existing procedures related to the use of reception and representation funds played a role in the violation.

The Commission has already begun taking corrective action, in the form of issuing a new standard operating procedure to govern the use of reception and representation funds, to prevent the violation from reoccurring.

The Commission is working at meeting the statutory reporting requirements (in coordination with the Office of Inspector General). They are currently investigating the violation in order to gather the data necessary to meet the mandatory reporting requirements to the President, Congress, and the Comptroller General. The Government Accountability Office and the Office of Management and Budget have been informally notified of the violation and are providing the Commission guidance on how to investigate and report the violation.

Recommendation:

27. FMFS management should continue to work with the Office of General Counsel and Office of Inspector General to fully investigate the cause of the violation, determine the identities and culpability of those responsible Commission officials, and take appropriate corrective actions, to include disciplinary actions where appropriate. At the end of their investigation, the Commission will need to comply with all of the appropriate reporting requirements.

Management Response:
Management generally agreed with our findings and recommendation.

j. Prompt Payment Act Compliance, as required by the Federal Travel Regulations (FTR)

In conjunction with our review of manual travel payments throughout the fiscal year, we identified that the Commission does not comply with the Prompt Payment Act, as required by the FTR. Per FTR §301-52.17, "your agency must reimburse you within 30 calendar days after you submit a proper travel claim to your agency's designated approving office. Your agency must ensure that it uses a satisfactory recordkeeping system to track submission of travel claims. For example, travel claims submitted by mail, in accordance with your agency's policy, could be annotated with the time and date of receipt by your agency." As such, our review found seven travel payments that were not paid within 30 days, nor was interest paid. The following payments were identified as non-compliant are noted below:

- 12-C4328502 – 53 days late
- 12-C2438506 – 50 days late
- 11-C2438012 – 66 days late

- 11-C2431612 – 299 days late
- 12-C24300001 – 32 days late
- 11-C2438016 – 153 days late
- 12-C2438009 – 20 days late

Recommendation:

28. FMFS develop new policies and procedures for travelers/employees to reference for the proper execution of FMFS established internal controls; as well as, establish an internal SOP to ensure complete, accurate, and complaint processing in GovTrip. Rigorously enforce all policies and procedures by FMFS.

Management Response:
Management generally agreed with our findings and recommendations.

k. Debt Collection Improvement Act

In conjunction with our review of compliance with the Debt Collection Improvement Act (DCIA) we found that the Commission had not complied with the DCIA as implanted by OMB Memo M-4-10 Debt Collection Improvement Act Requirements, which requires that all eligible nontax debts more than 180 days delinquent be referred to the Department of the Treasury's Financial Management Service for collection; and OMB Circular A-129, Policies for Federal Credit Programs and Non-Tax Receivables, which states, "Agencies shall promptly act on the collection of delinquent debts, using all available collection tools to maximize collections. Agencies shall transfer debts delinquent 180 days or more to the Treasury/FMS or Treasury-designated debt collection centers for further collection actions and resolution." We found that the Commission had not been properly reviewing and transferring debt related receivables resulting from individuals' failures to pay fees associated with the CPSC Freedom of Information Act program to the Department of the Treasury's Financial Management Service for collection. This deficiency was first reported as a Notice of Finding and Recommendation of the FY 2010 financial statement audit on October 25, 2010. The following debts were found to be noncompliant:

- FOIA 10-F-00661 in the amount of $297, dated 2/23/2011 and due for payment within 30 days on 3/25/2011. The debt should have been transferred to the Department of the Treasury within 180 days of payment due date, on 9/21/2011. We noted that the debt was not transferred and a check was received for the debt on 10/3/2011.
- FOIA 10-F-00502 in the amount of $168.80, dated 10/25/2010 and due for payment within 30 days on 11/24/2010. The debt should have been transferred to the Department of the Treasury within 180 days of payment due date, on 5/23/2011. We noted that the debt was not transferred and an electronic payment was received for the debt on 11/15/2011.

Recommendation:

29. FMFS establish procedures to review the receivables aging report each month for debt collections delinquent 180+ days that meet DCIA criteria, and refer delinquent cases that meet the general requirements to Fed Debt via the U.S Treasury in accordance with the DCIA guidelines.

Management Response:
Management generally agreed with our findings and recommendations.

APPENDIX II

MANAGEMENT'S RESPONSE

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

Date: November 16, 2012

To: Christopher Dentel
Inspector General

From: Jay Hoffman
Chief Financial Officer

On behalf of the financial management team, I am pleased to accept your audit report on the financial statements of the Consumer Product Safety Commission for fiscal year 2012 and 2011 (restated). The Agency's efforts and achievements toward improved financial management are clearly reflected in the audit opinion. The financial management team is gratified to have received an unqualified audit opinion on the fiscal year 2012 and 2011 (restated) financial statements.

I acknowledge the one significant deficiency in fiscal year 2012 pertaining to internal controls over Accounts Payable and Budget Monitoring. Your report enumerated eight specific findings that resulted in the one significant deficiency. Management has already initiated, and in some instances completed, corrective actions necessary to resolve those findings, and where work remains, we are proceeding with a sense of urgency.

I am personally committed to continuing our implementation of a robust internal controls program over financial reporting. I am particularly satisfied to note the resolution of four out of five of the prior year significant deficiencies in internal controls related to (1) Financial Management and Reporting; (2) Fund Balance with Treasury; (3) Property Plant and Equipment; and (4) Earned Revenue. In addition, the financial management team successfully closed 19 out of 22 findings identified last year.

I acknowledge your report's conclusion that material weaknesses in internal controls existed in the financial reporting process in fiscal year 2011 that resulted in the failure to identify the erroneous reporting of earned revenue and the omission of the Federal Employment Compensation Act (FECA) Accrual Liability. Management identified the two material misstatements pertaining to last fiscal year's 2011 financial statements in fiscal year 2012 operations. I am pleased to convey that the control weaknesses have subsequently been corrected in the course of our internal controls program implementation, as evidenced by management's identification of the material misstatements. The weaknesses are not evidenced in the fiscal year 2012 controls assessment.

I appreciate the efforts and leadership of the Office of the Inspector General. Please convey my appreciation to your team for the many hours of work invested in completing this audit.

STATUS OF PRIOR YEAR FINDINGS

Appendix III
Status of Prior Year Findings

Audit Report Reference	Fiscal Year of Audit Finding	Condition	Current Year Status
1(a)	2011	Management identified specific monitoring and reconciliations reports that are obtained from Delphi or from the Enterprise Service Center (ESC), to assist in providing monitoring and oversight over ESC's transactional processing as of May 1, 2011. As such, FMFS management has assigned specific FMFS accountants to monitor activity from these reports and report any anomalies back to management. Upon review, the reports had not been run and/or reviewed timely, as the reports were signed and dated from 6/21/11 to 6/23/11, which occurred during our "walkthrough" to assess the design and implementation on internal controls.	FMFS has developed controls over the monitoring of financial reporting and review procedures to identify reporting issues. FMFS has specifically used the financial monitoring reports to analyze balances and ensure accuracy and completeness over the balances. This finding has been closed as of 9/30/12.
1(b)	2011	During our assessment internal controls over financial reporting, we noted that no review had been performed over the FY 2011 opening balances of the CPSC financial statements.	FMFS developed a process to test the opening balances for the beginning of each fiscal year. This finding has been closed as of 9/30/12.
1 (c)	2011	During our review of the 3/31/11 Financial Statements, including the Balance Sheet, Statement of Net Cost, and Statement of Budgetary Resources, the prior year 3/31/10 amounts were not consistent with what had been reported to OMB previously. We noted that the incorrect prior year amounts were reported to OMB with the 3/31/11 Financial Statements.	FMFS has developed procedures to properly review the financial statements as well as prior year reporting amounts. This finding has been closed as of 9/30/12.
1(d)	2011	During our review of the 6/30/11 Financial Statements, the Financial Statement Checklist (Appendix B, Financial Reporting Standard Operating Procedures (SOP)), was prepared and completed by an FMFS Accountant on 8/1/11 and then reviewed and approved by the FMFS Deputy Director on 8/1/11. This review took place approximately two weeks after the statements had been submitted to OMB. We noted the statements were reviewed and approved by the FMFS Director and Deputy Director on 7/21/11, and were then submitted to OMB on 7/22/11 for the Commissions quarterly financial reporting.	Current FMFS Management has removed the Financial Statement checklist as a control process. The new controls in place over financial reporting appear to be designed appropriately and effectively. This finding has been closed as of 9/30/12.
1 (e)	2011	During our review of the supporting documents for the FMFS Financial Statement Checklist (Appendix B) within the Standard Operating Procedures (SOP), an FMFS Intern conducted reviews of the Balance Sheet to GL Reconciliation and the Net Cost to GL Reconciliation that were prepared on 7/21/11. We noted this practice is inconsistent with guidance explicitly stated in the SOP Checklist, that an "FMFS Accountant is to perform the procedures over the checklist and answer all questions" associated with the checklist.	Current FMFS Management has removed the Financial Statement checklist as a control process. The new controls in place over financial reporting appear to be designed appropriately and effectively. This finding has been closed as of 9/30/12.

1 (f)	2011	During our review of the 6/30/11 Financial Statements, the 6/30/11 SF-133 Checklist (Appendix B, SF-133 Standard Operating Procedures (SOP)), was prepared and completed by an FMFS Accountant on 8/1/11, and then reviewed and approved by the FMFS Deputy Director on 8/1/11. This review took place approximately two weeks after the statements had been submitted to OMB. We noted that they were reviewed and approved by the FMFS Director and Deputy Director on 7/21/11, and the statements were then submitted to OMB on 7/22/11 for the Commissions quarterly financial reporting.	Current FMFS Management has removed the SF-133 Review checklist as a control process. The new controls in place over financial reporting appear to be designed appropriately and effectively. This finding has been closed as of 9/30/12.
2 (a)	2011	The Government-Wide Accounting (GWA) to Trial Balance Reconciliation prepared by ESC as of 4/30/11 from the Division of Financial Management (FMFS) management and noted that it had not been reviewed by the FMFS accountant and management in a timely fashion. Our walkthrough of internal controls occurred on 6/15/11. The review of the reconciliation was prepared on 6/17/11 by the accountant and signed off by management on 6/23/11. We further noted that a "post review" was performed by management over the SF-224 once it was already submitted to Treasury by ESC, which was not timely.	Current FMFS management created new control review processes and procedures over FBWT. The design and effectiveness appear to be implemented properly. This finding has been closed as of 9/30/12.
2 (b)	2011	The Government-Wide Accounting (GWA) to Trial Balance Reconciliation prepared by ESC as of 4/30/11 from the Division of Financial Management (FMFS) management and noted that it had variances totaling $4,548,815. Per inquiry of FMFS and ESC, most of these items are related to transactions with the State Department. Upon examining the difference detail, we noted that the variances spanned from June 2010 to the current period of 6/30/11.	FMFS management and ESC have worked towards clearing all material differences associated with the GWA to the G/L detail. We noted a few Supplemental SF-224's were submitted during the year; however, they were due to clean up of the differences. This finding has been closed as of 9/30/12.
2 (c)	2011	FMFS Management did not perform a proper and timely review of the SF-224 and the Supplemental SF-224 as of 3/31/11. Through review of the SF-224s, we noted that the FMFS Director signed the review and approval date on both documents on 7/27/11. This evidence of review took place approximately four months after the documents were submitted to the U.S. Treasury.	FMFS has improved the review procedures over the SF-224 and they are timely and accurate. This finding has been closed as of 9/30/12.
3 (a)	2011	Upon review of depreciation expense, FMFS calculations the amount for depreciation expense as of 6/30/11 was $167,413.21 including excess depreciation over disposed assets as of 6/30/11 was $159,179.15, and the net amount of current depreciation was $8,234.06 as of 6/30/11. The OIG obtained the Journal Voucher (JV) that was prepared by ESC for depreciation expense, and we noted the amount recorded for the period in Delphi was $572,058.57 as of 6/30/11. CPSC proposed the high-level entry of $563k to have the balance agree for financial reporting purposes. CPSC did not go back and perform a reconciliation to determine which assets were included in the Asset Fund and which were only in PMS, therefore, the entry made	The procedures over review of the PPE balance and depreciation amounts were remediated. This finding has been closed as of 9/30/12.

		was unsupported, and when the entry was reversed as of 6/30/11.	
3 (b)	2011	During our review of Property, Plant, and Equipment as of 6/30/2011, FMFS had prepared a Journal Voucher (JV) to calculate the depreciation expense by asset year as of 6/30/11, prior to the completion and review of the Fixed Asset Reconciliation.	The procedures over review of the PPE balance and reconciliation to PMS was remediated. This finding has been closed as of 9/30/12.
3 (c)	2011	Fixed Assets- SGL 1750 Equipment Incorrect entry: Upon review of the Fixed Asset reconciliation as of 9/30/2011 performed by FMFS, we noted that the amount of equipment was $9,276,083, which agreed to the balance in the CPSC Property Management System (PMS). However, upon review over the 10/21/11 Draft Financial Statements, we noted the balance in the SGL 1750 was $16,061,637, resulting in an overstatement of $6,785,554. Fixed Assets- SGL 1830 Internal Use Software (IUS) Incorrect entry: Upon review of the IUS reconciliation performed by FMFS, we noted that the amount of assets was $1,065,063. However, upon review of the 10/21/11 Draft Financial Statements, we noted the balance in SGL 1830 was $1,347,914, resulting in an overstatement of $282,851.	FMFS management has remediated the process to include reviews over expenses that contain capitalized items to ensure that they are being added to the property balance timely and accurately. This finding has been closed as of 9/30/12.
4 (a)	2011	The amount of earned revenue reported as of 6/30/11 appeared to be understated, based on the nature and frequency of the transactions that constitute earned revenue for CPSC. As such, we performed additional analysis over the Statement of Net Cost earned revenue balance as of 6/30/11 and noted that CPSC reported $48,872. Of this amount, $18,794.23 (from SGL 5200) constituted earned revenue from reimbursable agreements, also known as Intra-Agency Agreements (IAA).	FMFS management has worked with ESC to improve the revenue and expense matching procedures significantly; however, we noted that there was a finding related to the understatement of earned revenue as of 9/30/12. This finding has been closed as of 9/30/12.
5 (a)	2011	During our Accounts Payable (AP) walkthrough with FMFS on 6/14/11, management discussed specific Delphi reports from the ESC that would be used to monitor the AP balances. The AP integrity reports were to be run weekly from Delphi, and then assigned to specific FMFS accountants to monitor financial statement activity. Upon review, that the report-tracking list provided to evidence the reports were run and reviewed was incomplete. There were reports that had not been run and reviewed for this weekly period.	In FY 2012, there were various remediation efforts made to the AP control process, however a significant deficiency still existed in controls. This finding has been closed as of 9/30/12.
5 (b)	2011	Through a review of 45 US Bank Purchase Card transactions, one sample did not have the proper approving official authorize the bank statement transactions for payment.	The bankcard approval process has been remediated. This finding has been closed as of 9/30/12.
5 (c)	2011	FMFS and ESC could not provide IPAC supporting documentation for the OIG to verify the proper approval of the payment of 19 of the samples. The amount of IPAC payments that could not be verified for approval was $581,511.70.	the controls over IPAC approval and document retention have been remediated. This finding has been closed as of 9/30/12.

5 (d)	2011	Out of a sample of 45 manual travel payments as of 6/30/2011, we noted that 14 of the samples lack evidence that the Travel Vouchers in question were reviewed and certified by a FMFS Accountant prior to the vouchers being entered into Delphi for payment.	During FY 2012, we noted out of a sample of 45 manual travel payments as of 6/30/2012, we noted that 9 of the sample items lacked appropriate approval prior to the trip date. However, we recognize as of May 2012, FMFS has ceased the use of manual travel authorization forms and vouchers for travel, and is relying on the use of the GovTrip travel system. This finding remains **open** as of 9/30/12.
5 (e)	2011	Out of a sample of 45 manual travel payments as of 6/30/2011, in sample #23, the employee failed to either document the times of travel and/or annotate on their travel voucher their hours of travel that were over a 12-hour period to prove eligibility for an allowance reimbursement. We further noted for sample #9, the employee only claimed $42 in subsistence for a trip properly documented over a 12-hour period. As of September 23, 2010 MI&E in Bethesda, MD for the first and last day of travel is awarded at $53.25. Thus, the payment was understated $11.25.	During FY 2012, we performed substantive testwork of manual travel payments as well as payments issued through GovTrip. We noted of the manual travel payments 10 travel vouchers were paid incorrectly totaling $2,741.76; and 10 GovTrip vouchers were paid incorrectly totaling $1,237.85. This finding remains **open** as of 9/30/12.
5 (f)	2011	Out of a sample of 45 SF-1164 Reimbursement payments as of 6/30/11, 6 of the samples lacked evidence as to when these claims were submitted to FMFS for payment. Due to the lack of recordkeeping, were unable to determine if these vouchers were paid within the 30 days period, as specified by the FTR.	There was no control issues found during FY 2012 over SF-1164 payments. This finding has been closed as of 9/30/12.
5 (g)	2011	Out of a sample of 45 SF-1164 Reimbursement payments as of 6/30/2011, FMFS was unable to provide support for 2 of the samples.	Documentation was provided in a timely manner for payments related to SF-1164 transaction. This finding has been closed as of 9/30/12.
5 (h)	2011	Over a control sample of 45 vendor payments, we noted thee testwork exceptions. In all three cases, the invoice was paid late and no interest was calculated or paid to the vendor for the late payment in accordance with the Prompt Pay Act.	During FY 2012, there were no prompt pay compliance testwork exceptions related to vendor payments. However, we found non-compliance over the manual travel testwork. This finding is open from FY 2010- FY 2012. This finding remains **open** as of 9/30/12.
5 (i)	2011	The CPSC Freedom of Information Act (FOIA) cases Aging Report as of 9/30/2011 had a total of 4 cases over 180 days delinquent on payment totaling $1,734.80. Further, we reviewed the FOIA transactions as part as our internal control review and determined of the 45 sampled 14 transactions that were collected that were 180+ days past due, that were not transferred to Fed Debt, as required by DCIA.	During FY 2012, there were two DCIA compliance testwork exceptions related to FOIA transactions. This deficiency was first reported as a Notice of Finding and Recommendation of the FY 2010 financial statement audit on October 25, 2010. This finding remains **open** as of 9/30/12.

FINANCIAL STATEMENTS AND NOTES TO FINANCIAL STATEMENTS

Financial Statements
U.S. Consumer Product Safety Commission
Balance Sheets
As of September 30, 2012 and 2011
(in dollars)

	2012	RESTATED 2011
Assets		
Intragovernmental		
Fund Balance with the U.S. Treasury (Note 3)	$ 37,517,927	$ 41,116,102
Total Intragovernmental	37,517,927	41,116,102
Accounts Receivable (Note 4)	2,163,089	374,645
Property and Equipment, net (Note 5)	6,194,354	5,297,697
Other	-	1,158
Total Assets	**$ 45,875,370**	**$ 46,789,602**
Liabilities		
Intragovernmental		
Accounts Payable	$ 288,888	$ 1,037,295
Employee Benefits (Note 7)	254,111	254,042
Advances from Reimbursable Services	1,156,192	300,622
Workers' Compensation (Note 6)	367,237	368,391
Total Intragovernmental	2,066,428	1,960,350
Accounts Payable	3,358,775	2,603,238
Salaries and Benefits (Note 7)	1,171,485	1,094,398
Accrued Annual Leave (Note 6)	4,516,119	4,389,264
Custodial Liability (Note 8)	2,160,339	370,678
Workers' Compensation Actuarial (Note 6)	1,829,243	1,729,416
Other Liabilities (Note 9)	76,198	76,198
Total Liabilities	**15,178,587**	**12,223,542**
Net Position		
Unexpended Appropriations	31,288,476	35,821,485
Cumulative Results of Operations	(591,693)	(1,255,425)
Total Net Position	30,696,783	34,566,060
Total Liabilities and Net Position	**$ 45,875,370**	**$ 46,789,602**

The accompanying notes are an integral part of these statements.

Financial Statements
U.S. Consumer Product Safety Commission
Statement of Net Costs
For the Years ended September 30, 2012 and 2011
(in dollars)

	2012	RESTATED 2011
Net Cost of Operations (Note 2)		
Program Costs	$ 124,065,272	$ 146,325,139
Less: Earned Revenue	2,246,344	2,757,523
Total Net Cost of Operations (Note 11)	**$ 121,818,928**	**$ 143,567,616**

The accompanying notes are an integral part of these statements.

Financial Statements
U.S. Consumer Product Safety Commission
Statement of Changes in Net Position
For the Years ended September 30, 2012 and 2011
(in dollars)

	2012	RESTATED 2011
Cumulative Results of Operations		
Beginning Balances	$ 3,675,805	$ 1,142,690
Correction of Errors (Note13)	(4,931,230)	(2,849,662)
Beginning Balances, as Adjusted	(1,255,425)	(1,706,972)
Budgetary Financing sources		
Appropriations Used	118,413,908	139,682,881
Donations and forfeitures of cash and cash equivalents		34,358
Other		(3,953)
Other Financing Sources (Non-Exchange)		
Imputed Financing (Note 7)	4,068,752	4,757,252
Transfer In/Out Without Reimbursement		(451,375)
Total Financing Sources	122,482,660	144,019,163
Net Cost of Operations	(121,818,928)	(143,567,616)
Net Change	663,732	451,547
Cumulative Results of Operations	(591,693)	(1,255,425)
Unexpended Appropriations		
Beginning Balance	32,647,935	58,602,251
Correction of Errors (Note 13)	3,173,550	2,821,397
Beginning Balance, as Adjusted	35,821,485	61,423,648
Budgetary Financing Sources		
Appropriations Received	114,500,000	114,744,485
Other Adjustments	(619,101)	(663,768)
Appropriations Used	(118,413,908)	(139,682,880)
Total Budgetary Financing Sources	(4,533,009)	(25,602,163)
Total Unexpended Appropriations	31,288,476	35,821,485
Net Position	$ 30,696,783	$ 34,566,060

The accompanying notes are an integral part of these statements.

Financial Statements
U.S. Consumer Product Safety Commission
Statement of Budgetary Resources
For the Years ended September 30, 2012 and 2011
(in dollars)

	2012	2011
Budgetary Resources		
Unobligated balance brought forward, October 1	$ 6,896,703	$ 7,291,366
Recoveries of prior year unpaid obligations	1,126,707	1,634,907
Unobligated balance from prior year budget authority, net	8,023,410	8,926,274
Appropriations	114,500,000	115,018,000
Permanently not available	(619,101)	(891,803)
Spending authority from offsetting collections	3,073,983	3,110,836
Total Budgetary Resources (Note10)	124,978,292	126,163,307
Status of Budgetary Resources		
Obligations incurred (Note10)	116,675,238	119,266,605
Unobligated balance, end of year:		
Apportioned	825,759	540,415
Unapportioned	7,477,295	6,356,287
Total unobligated balance, end of year	8,303,054	6,896,702
Total Status of Budgetary Resources	124,978,292	126,163,307
Change in Obligated Balance		
Unpaid obligations, brought forward, October 1 (gross)	34,219,400	57,835,945
Obligations incurred	116,675,238	119,266,605
Outlays (gross)	(120,558,853)	(141,248,243)
Change in uncollected customer payments from Federal sources	5,795	-
Recoveries of prior year unpaid obligations	(1,126,707)	(1,634,907)
Obligated balance, end of year (net)	29,214,873	34,219,400
Budget Authority and Outlays, Net		
Budget authority, gross	117,573,983	117,237,035
Actual offsetting collections	(3,079,778)	(3,110,836)
Change in uncollected customer payments from Federal sources	5,795	-
Budget authority, net	114,500,000	114,126,199
Outlays, gross	120,558,853	141,248,243
Actual offsetting collections	(3,079,778)	(3,110,836)
Net Outlays	117,479,075	138,137,407
Distributed offsetting receipts (Note 1)	(12,503)	(42,184)
Net Outlays	$ 117,466,572	$ 138,095,223

The accompanying notes are an integral part of these statements.

Financial Statements
U.S. Consumer Product Safety Commission
Statement of Custodial Activity
For the Years ended September 30, 2012 and 2011
(in dollars)

	2012	2011
Revenue Activity:		
Sources of Cash Collections:		
Miscellaneous:		
Civil Penalties & Fines	$ 6,099,319	$ 5,996,256
FOIA and Miscellaneous	14,055	12,379
Total Cash Collections	6,113,374	6,008,635
Accrual Adjustments	1,789,660	589,150
Total Custodial Revenue	7,903,034	6,597,785
Disposition of Collections:		
Transferred to Others:		
Treasury General Fund	1,340,047	(4,593,389)
(Increase)/Decrease in Amount Yet to be Transferred	(5,663,760)	(2,004,396)
Retained by Reporting Entity	(3,579,321)	-
Retained by Justice Department-Fees	-	-
Total Disposition of Collections	(7,903,034)	(6,597,785)
Net Custodial Activity	$ -	$ -

The accompanying notes are an integral part of these statements.

NOTES TO FINANCIAL STATEMENTS

Note 1 – Summary of Significant Accounting Policies

Reporting Entity

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

- Develop voluntary standards
- Issue and enforce mandatory standards
- Obtain recall of products or arranging for their repair
- Conduct research on potential product hazards
- Inform and educate consumers responding 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 CPSC. The U.S. Department of Treasury automatically transfers all cash balances in these receipt accounts to the general fund of the Treasury at the end of each fiscal year.

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

Budget Authority

Congress annually passes appropriations that provide the CPSC with authority to obligate funds for necessary expenses to carry out mandated program activities. The funds appropriated are subject to OMB apportionment of funds in addition to congressional restrictions on the expenditure of funds. Also, the CPSC places internal restrictions to ensure the efficient and proper use of all funds.

Basis of Accounting and Presentation

The financial statements have been prepared on the accrual basis and the budgetary basis of accounting in conformity with the generally accepted accounting principles for the Federal government. Accordingly, revenues are recognized when earned and expenses are recognized when incurred, without regard to the receipt or payment of cash. These principles differ from budgetary reporting principles. The differences relate primarily to the capitalization and depreciation of property and equipment, as well as the recognition of other long-term assets and liabilities. The statements were also prepared in conformity with OMB Circular A-136, *Financial Reporting Requirements*, as amended.

Assets

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

Fund Balances with the U.S. Treasury

Fund Balances with Treasury consist of appropriated funds and general fund receipt accounts. Appropriated funds are available to pay current liabilities and authorized purchase commitments. General fund receipt accounts are used to record collections made by the CPSC on behalf of the Department of Treasury's General Fund. The CPSC's Fund Balance with Treasury is carried forward until such time as goods or services are received and payment is made, or until the funds are returned to the U.S. Treasury.

CPSC's cash receipts and disbursements are processed by the U.S. Treasury. Funds with 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 CPSC.

Accounts Receivable

CPSC's accounts receivable are classified into two types of accounts. Entity accounts receivables include amounts due from vendors and current and former employees. Non-entity accounts receivable are for civil monetary penalties imposed as a result of the CPSC's enforcement activities, and for fees imposed for information requested from the public for Freedom of Information Act requests. CPSC holds these nonentity receivables in a custodial capacity.

Property and Equipment

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

Internal use software acquired for a value greater than $5,000 is capitalized using the straight-line method with a service life of five years. Purchased commercial software which does not meet the capitalization criteria is expensed.

Liabilities

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

Accounts Payable

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

Federal Employees Benefits

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

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

Accrued Annual Leave

A liability for annual leave is accrued as leave is earned and paid when leave is taken. At year-end, the balance in the accrued annual leave account is adjusted to reflect the liability at current pay rates and leave balances. Sick leave and other leave are expensed as taken.

Employee Health Benefits and Life Insurance

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

Federal Employees' Compensation Act (FECA)

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

Contingencies

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

Estimates and Assumptions

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

Reclassifications

The distributed offsetting collections in the prior year's statement of budgetary resources have been reclassified to conform to the current year presentation.

Restatements

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

Note 2 – Intra-governmental and Public Costs and Exchange

Intra-governmental costs arise from exchange transactions made between two reporting entities within the Federal Government in contrast with public costs, which arise from exchange transactions made with a nonfederal entity. Intra-governmental and public costs and exchange revenue for the periods ended September 30, 2012 and September 30, 2011 are as follows:

	Intra-governmental	With the Public	2012 Total
Gross Costs	$ 30,075,792	$ 93,989,480	$ 124,065,272
Less: Earned Revenue	2,218,129	28,215	2,246,344
Net Program Costs	$ 27,857,663	$ 93,961,265	$ 121,818,928

	Intra-governmental	With the Public	Restated 2011 Total
Gross Costs	$ 48,255,461	$ 98,069,677	$ 146,325,139
Less: Earned Revenue	2,754,961	2,561	2,757,523
Net Program Costs	$ 45,500,500	$ 98,067,116	$ 143,567,616

Note 3 – 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, 2012, and September 30, 2011 is as follows:

	2012	2011
Unobligated Balance		
Available	$ 825,758	$ 540,415
Unavailable	7,477,295	6,356,287
Obligated Balance, Not Yet Disbursed	29,214,874	34,219,400
Total Funds with U.S. Treasury	$ 37,517,927	$ 41,116,102

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

Note 4 – Accounts Receivable

The CPSC's entity receivables as of September 30, 2012 and September 30, 2011 are $2,751 and $3,967 respectively. CPSC's non-entity receivables include Civil Fines and Penalties and Freedom of Information Act activity. CPSC maintains these accounts in a custodial capacity in the total amount of $2,160,338 as of September 30, 2012 and $370,678 as of September 30, 2011.

Note 5 – Property, Plant and Equipment, Net

The composition of property, plant and equipment (PPE) as of September 30, 2012, is as follows:

Classes of PPE	Acquisition Cost	Accumulated Depreciation	Net Book Value	Service Life in Years
Equipment	$ 11,160,950	$ 5,033,506	$ 6,127,444	5-12
ADP Software	1,065,063	998,153	66,910	5
Total	$ 12,226,013	$ 6,031,659	$ 6,194,354	

The composition of PPE as of September 30, 2011, is as follows:

Classes of PPE	Acquisition Cost	Accumulated Depreciation	Net Book Value	Service Life in Years
Equipment	$ 9,276,083	$ 4,121,568	$ 5,154,515	5-12
ADP Software	1,065,063	921,881	143,182	5
Total	$ 10,341,146	$ 5,043,449	$ 5,297,697	

Note 6 – Liabilities Not Covered by Budgetary Resources

The liabilities on CPSC's balance sheets as of September 30, 2012, and September 30, 2011, include liabilities not covered by budgetary resources, which are liabilities for which congressional action is needed before budgetary resources can be provided. Although future appropriations to fund these liabilities are likely and anticipated, it is not certain that appropriations will be enacted to fund these liabilities. The composition of the liabilities not covered by budgetary resources as of September 30, 2012, and September 30, 2011is as follows:

Liabilities Not Covered by Budgetary Resources	2012	Restated 2011
Intra-governmental liabilities – Worker's Compensation	$ 367,237	$ 368,391
Accrued Annual Leave	4,516,119	4,389,264
Worker's Compensation Actuarial	1,829,243	1,729,416
Other Liabilities	3,953	3,953
Total Liabilities Not Covered by Budgetary Resources	$ 6,716,552	$ 6,491,024

Note 7 – Federal Employee Benefits

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

The federal employee retirement benefit costs paid by OPM and imputed to CPSC for the period ended September 30, 2012 and September 30, 2011 are as follows:

	2012	2011
Estimated future pension costs (CSRS/FERS)	$ 1,463,984	$ 1,993,253
Estimated future postretirement health insurance (FEHB)	2,594,382	2,754,339
Estimated future postretirement life insurance (FEGLI)	10,386	9,660
Total Imputed Costs	$ 4,068,752	$ 4,757,252

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

The Thrift Savings Plan (TSP) is a defined contribution retirement savings and investment plan for employees covered by either CSRS or FERS. CSRS participating employees may contribute up to $17,000 for 2012 but do not receive a matching contribution from the CPSC. FERS participating employees may contribute up to $17,000 for 2012. For FERS employees, the CPSC's automatic contribution is 1 percent of the employee's gross pay with additional matching up to a total of 5% of the employee's gross salary. CPSC contributions are recognized as current operating expenses.

Amounts owed to OPM and Treasury as of September 30, 2012 and September 30, 2011, were $254,111 and 254,042, respectively, for CSRS, FERS, FICA, FEHB, and FEGLI contributions and are shown on the balance sheets as an employee benefits liability.

Note 8 – Custodial Liability

The CPSC has authority to levy fines and penalties against manufacturers, retailers or distributors who violate the Consumer Product Safety Act, Federal Hazardous Substance Act, and the Flammable Fabrics Act. Civil penalty collections are deposited in the U.S. Treasury and are not available for the CPSC to use. The CPSC charges a fee for the processing of Freedom of Information Act (FOIA) requests. FOIA fees are also deposited in the U.S. Treasury and are not available for the CPSC to use. The fund balance with Treasury and uncollected civil penalties and FOIA fees balances in the Treasury miscellaneous receipt funds are recognized as Custodial Liability in the CPSC's Balance Sheets. As of September 30, 2012 and September 30, 2011, the total Custodial Liabilities are $2,160,339 and $370,678 respectively. The revenue and collection activities are presented in the Statement of Custodial Activities.

Note 9 – Other Liabilities

The Other Liabilities consists of the gifts received in the amount of $72,245 and unfunded contingent liability in the amount of $3,953. The gifts were donations received from the nongovernment sources in support of the agencies mission which will be recognized as earned revenue once expended. The contingent liability was due to reasonable possibility of claims against CPSC, related to the Federal Torts Claim Act and the Equal Employment Opportunity.

Note 10 – Budgetary Resources

Budgetary resources available to CPSC during fiscal year 2012 include current year appropriations in the amount of $114,500,000, of which $500,000 shall remain available until September 30, 2013, to implement the Virginia Graeme Baker Pool and Spa Safety Act grant program as provided by section 1405 of Public Law 110–140 (15 U.S.C. 8004), prior year's unobligated balances, reimbursements earned by CPSC from providing services to other federal entities for a price (reimbursable services), and cost-sharing arrangements with other federal entities.

Reimbursable revenue is the amount of money earned for goods and services provided to other agencies and the public. CPSC recognizes reimbursable work agreement revenue when earned, i.e. goods have been delivered or services rendered. CPSC has reimbursable agreements which generated collections from work partners totaling $3,073,983 and $3,110,838 in 2012 and 2011 respectively. The more prominent of these relationships is the Centers for Disease Control and Prevention, National Institute for Occupational Safety and Health, Health and Human Services, National Highway Traffic Safety Administration, Food and Drug Administration, Consumer Financial Protection Board, and the Department of Army. The majority of these agreements fund CPSC's injury data collection program.

Comparison of the CPSC's fiscal year 2011 statement of budgetary resources with the corresponding information presented in the 2013 President's Budget is as follows:

	Budgetary Resources	Obligations Incurred
Fiscal year 2011 statement of Budgetary resources	$ 126,163,307	$ 119,266,605
Unobligated balances, beginning of year - (funds activity on expired accounts)	(6,496,117)	
Recovery of prior year unpaid obligation	(1,634,907)	
Obligations incurred - expired years		(795,249)
Permanently not available - (funds activity on expired accounts)	891,803	
Spending authority from offsetting collections (funds activity on expired accounts	3,055,582	
Other - rounding in President's Budget	(12,668)	(42,356)
Fiscal year 2011, actual	$ 121,967,000	$ 118,429,000

As the fiscal year 2014 President's Budget will not be published until February 2014, a comparison between the fiscal year 2012 data reflected on the statement of budgetary resources and fiscal year 2012 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 IT Modernization projects and reimbursable activities. Apportionment categories of obligations incurred for fiscal years 2012 and 2011 are as follows:

	2012	2011
Direct Salaries and Expenses- Category A	$ 105,241,707	$ 110,403,732
Direct IT Modernization Project - Category B	8,362,855	5,807,291
Reimbursable Activities - Category B	3,070,676	3,055,582
Total Obligations incurred	$ 116,675,238	$ 119,266,605

Note 11 – Reconciliation of Net Cost of Operations to Budget

Details of the relationship between budgetary resources obligated and the net costs of operations for the fiscal years ending September 30, 2012 and 2011 are as follows:

	2012	Restated 2011
RESOURCES USED TO FINANCE ACTIVITIES		
Budgetary Resources Obligated:		
Obligations Incurred	$ 116,675,238	$119,266,605
Less: Spending Authority from Offsetting Collections and Recoveries	4,200,690	4,745,746
Obligations Net of Offsetting Collections and Recoveries	112,474,548	114,520,859
Offsetting Receipts	12,503	42,184
Net Obligations	112,487,051	114,563,043
Imputed Financing from Cost Absorbed by Others	4,068,753	4,757,252
Total Resources Used to Finance Activities	**116,555,804**	**119,320,295**
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	5,051,784	24,865,930
Budgetary Offsetting Collections that do not Affect Net Cost of Operations	849,775	
Resources that Finance the Acquisition of Assets Capitalized	(2,304,529)	(2,077,221)
Net Decrease in Receivables not Generating Resources until Collected	(4,418)	28,723
Total Resources Used to Finance Items not Part of the Net Cost of Operations	**3,592,612**	**22,817,432**
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	126,855	436,636
Change in Unfunded FECA Liability	1,927,917	1,743,834
Total Components of Net Cost of Operations That Will Require or Generate Resources in Future Periods	2,054,772	2,180,470
Components not Requiring or Generating Resources in the Current Period		
Depreciation and Amortization	1,436,656	1,020,102
Revaluation of Assets or Liabilities	28,785	(41,266)
Other Costs that will not Require Resources	(1,849,700)	(1,729,417)
Total Components of Net Cost of Operations That Will Not Require or Generate Resources	(384,259)	(750,581)
Total Components of Net Cost of Operations That Will Not Require or Generate Resources in the Current Period	**1,670,513**	**1,429,889**
Net Costs (Income) from Operations	**$121,818,928**	**$143,567,616**

Note 12 – Schedule of Spending

What Money is Available to Spend?	2012
Total Resources	$ 124,978,292
Less: Amount Available but Not Agreed to be Spent	(825,759)
Less: Amount Not Available to be Spent	(7,477,295)
Total Amounts Agreed to be Spent	$ 116,675,238
How was the Money Spent?	
Personnel Compensation and Benefits	$ 70,051,279
Contractual Services and Supplies	35,519,805
Rent, Communications and Utilities	9,450,073
Structures and Equipment	3,863,491
Travel and Transportation	1,420,234
Insurance Claims and Indemnities	9,360
Other	244,610
Total Spending	120,558,852
Less: Amounts Remaining to be Spent	(3,883,614)
Total Amounts Agreed to Be Spent	$ 116,675,238

Note 13 – Restatement of prior year Financial Statements

CPSC has restated its FY 2011 financial statements to correct material errors in the cumulative results of operation in the amount of $4,931,230 and unexpended appropriations in the amount of $3,173,550. There were two material errors in the FY2011 financial statements, one is due to the recording of the FY2010 reimbursable revenue to the direct funds and the other is due to non-recording of the estimated actuarial liability for the worker's compensation. The restated amounts were presented in the FY2012 Statement of Changes in Net Position as corrections of errors to the beginning balances of cumulative results of operation and unexpended appropriations. Please see Other Supplementary Information for details of the financial line items restatement.

OTHER SUPPLEMENTARY INFORMATION

Financial Statements
U.S. Consumer Product Safety Commission
Restatement of Balance Sheet
As of September 30, 2011

(in dollars)

	AUDITED 2011	CORRECTION OF ERRORS	RESTATED 2011
Assets			
Intra-governmental			
Fund Balance with the U.S. Treasury (Note 3)	$ 41,116,102		$ 41,116,102
Total Intra-governmental	41,116,102		41,116,102
Accounts Receivable (Note 4)	374,645		374,645
Property and Equipment (Note 5)	5,297,697		5,297,697
Other	1,158		1,158
Total Assets	**$ 46,789,602**		**$ 46,789,602**
Liabilities			
Intra-governmental			
Accounts Payable	1,037,295		1,037,295
Employee Benefits (Note 7)	254,042		254,042
Advances from Reimbursable Services	300,622		300,622
Workers' Compensation (Note 6)	368,391		368,391
Total Intra-governmental	1,960,350		1,960,350
Accounts Payable	2,647,217	(43,979)	2,603,238
Salaries and Benefits (Note 7)	1,094,399		1,094,399
Accrued Annual Leave (Note 6)	4,389,264		4,389,264
Custodial Liability (Note 8)	370,678		370,678
Workers' Compensation Actuarial (Note 6)	-	1,729,416	1,729,416
Other Liabilities (Note 9)	3,953	72,245	76,198
Total Liabilities	**10,465,862**		**12,223,543**
Net Position			
Unexpended Appropriations	32,647,935	3,173,550	35,821,485
Cumulative Results of Operations	3,675,805	(4,931,230)	(1,255,425)
Total Net Position	36,323,740		34,566,059
Total Liabilities and Net Position	**$ 46,789,602**		**$ 46,789,602**

Financial Statements
U.S. Consumer Product Safety Commission
Restatement of Statement of Net Costs
For the Year ended September 30, 2011
(in dollars)

	AUDITED 2011	CORRECTION OF ERRORS	RESTATED 2011
Net Cost of Operations (Note 2)			
Program Costs	$ 144,595,723	1,729,416	$ 146,325,139
Less: Earned Revenue	2,757,523		2,757,523
Total Net Cost of Operations (Note 11)	**$ 141,838,200**		**$ 143,567,616**

Financial Statements
U.S. Consumer Product Safety Commission
Restatement of Statement of Changes in Net Position
For the Year ended September 30, 2011
(in dollars)

	AUDITED 2011	CORRECTION OF ERRORS	RESTATED 2011
Cumulative Results of Operations			
Beginning Balances	$ 1,142,690		$ 1,142,690
Correction of Errors (Note 13)		(2,849,662)	(2,849,662)
Beginning Balances, as Adjusted	1,142,690		(1,706,972)
Budgetary Financing sources			
Appropriations Used	140,035,033	(352,152)	139,682,881
Donations and forfeitures of cash and cash equivalents	34,358		34,358
Other	(3,953)		(3,953)
Other Financing Sources (Non-Exchange)			-
Transfer In/Out Without Reimbursement	(451,375)		(451,375)
Imputed Financing (Note 7)	4,757,252		4,757,252
Total Financing Sources	144,371,315		144,019,163
Net Cost of Operations	(141,838,200)	(1,729,417)	(143,567,616)
Net Change	2,533,115		451,547
Cumulative Results of Operations	3,675,805	-	(1,255,425)
Unexpended Appropriations			
Beginning Balance	58,602,251		58,602,251
Correction of Errors (Note 13)		2,821,397	2,821,397
Beginning Balance, as Adjusted	58,602,251		61,423,648
Budgetary Financing Sources			
Appropriations Received	114,744,485		114,744,485
Other Adjustments	(663,768)		(663,768)
Appropriations Used	(140,035,033)	352,153	(139,682,880)
Total Budgetary Financing Sources	(25,954,316)		(25,602,163)
Total Unexpended Appropriations	32,647,935		35,821,485
Net Position	$ 36,323,740		$ 34,566,060

REQUIRED SUPPLEMENTARY INFORMATION

Statement of Budgetary Resources

The statement is prepared on a total Commission basis.

Statement of Custodial Activity

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