United States

CONSUMER PRODUCT SAFETY COMMISSION

Washington, DC 20814

OFFICE OF THE INSPECTOR GENERAL

Independent Audit Report

CONSUMER PRODUCT SAFETY COMMISSION'S FISCAL YEAR (FY) 2011 FINANCIAL STATEMENTS

Date Issued: November 15, 2011

Independent Audit 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 2011 and 2010, we found

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

- although internal controls could be improved, for FY 2011 the Commission had effective internal controls over financial reporting (including safeguarding assets) and compliance with laws and regulations, and

- reportable noncompliance in FY 2011 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, 2011; and net costs; changes in net position; budgetary resources; and custodial activity for the year ended September 30, 2011. In regards to fiscal year 2010, the scope of our work was not sufficient to enable us to express an opinion on the Commission's financial statements for the year ended September 30, 2010.

Restated 2010 Financial Statements

The Commission has restated its financial statements for fiscal year 2010 due to material errors affecting the Commission's Balance Sheet, Statement of Net Cost, Statement of Changes in Net Position, Statement of Custodial activity, and the accompanying notes. The Commission reports that, "The errors were the result of improper accounting application of records in the financial system in preparing the financial statements." These errors were made at a time when the Commission was in the process of integrating its operations with those of a new financial system service provider. The Commission acknowledges 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. These problems were compounded by a lack of supervision over the execution of internal controls.

Management's disclosures were not sufficiently timely so as to allow us to fully evaluate the effectiveness of management's actions to determine and correct misstatements in the previously issued financial statements. Management reports that: the financial reporting procedures have been strengthened, these procedures include employing additional reviews to strengthen the statement reporting process; the restatement results in the proper reporting of the financial position of the FY2010 for comparative purposes in FY 2011; and the Commission transitioned to having the service provider provide "full service accounting" in May of 2011.

The Commission's restated fiscal year 2010 financial statements reflect a $5.7 million decrease in total assets, mainly attributable to an overstatement of miscellaneous receipt funds. Further, the Commission performed reconciliation between the Commission's Property Management System (PMS) and the Delphi Accounting system and identified $395 thousand and $1.7 million in capitalized property omitted from the balance sheet for fiscal years 2009 and 2010, respectively. We noted that the Commission corrected this error solely in fiscal year 2011, without properly restating the 2010 Property, Plant, and Equipment balance to include property acquired and place into service during 2010 and 2009. In addition, the Commission restated its 2010 financial statements to reflect a $10.5 million decrease in total liabilities. The Commission found an overstatement of other liabilities of $6.8 million and the inclusion of imputed costs of $4.7 million. The effects of restatement caused a $4.7 million understatement of the Commission's net position on the Balance Sheet and Statement of changes in Net Position for fiscal year 2010. For the Statement of Net Cost, the Commission found an overstatement of gross program cost of $4.3 million. Finally, the Commission restated various amounts on the Statement Budgetary Resources and the Statement of Custodial Activity. However, the Commission found the aggregate effects of these restated amounts to have had an immaterial impact on the respective financial statements. We noted that the Commission has disclosed the full nature of the effects of the restated 2010 financial statements in the accompanying notes to the 2011 financial statements, see Note 10.

Due to material errors throughout the Commission's financial statements, our report on the fiscal year 2010 financial statements, issued on November 15, 2010, is not to be relied upon. However, this report will not serve as the report on the restated fiscal year 2010 financial statements because as noted above, the Commission's decision to restate the fiscal year 2010 financial statements was not communicated to us in a sufficiently timely manner to allow us to audit them as part of our audit of the fiscal year 2011 financial statements. As such, we were unable to obtain sufficient and appropriate audit evidence to support the restatement of the fiscal year 2010 financial statements. Because of this limitation on the scope of our work, we are unable to give an opinion on the restated 2010 financial statements.

Appendix III presents the Commission's analysis of the restated 2010 financial statements.

Opinion on Internal Control

The Commission maintained, in all material respects, effective internal control over financial reporting (including safeguarding assets) and compliance as of September 30, 2011 that provided reasonable assurance that misstatements, losses, or noncompliance material in relation to the financial statements would be prevented or detected on a timely basis. Our opinion is based on criteria established under 31 U.S.C. 3512 (c), (d); the *Federal Managers' Financial Integrity Act* (FMFIA); the Office of Management and Budget (OMB) Circular A-123, *Management Accountability and Control*; OMB Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*; the Government Accountability Office (GAO), *Government Auditing Standards*; and the GAO/President's Council on Integrity and Efficiency (PCIE), *Financial Audit Manual*.

However, our work identified the need to improve certain internal controls, as listed below and described in detail in Appendix IV of this report. 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 deficiencies have been identified in the following areas:

- Financial Management and Reporting
- Fund Balance with Treasury
- Property, Plant, and Equipment
- Accounts Payable and Expenses
- Earned Revenue

Appendix IV discusses in detail the significant deficiencies identified.

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 IV) required to be reported under U.S. generally accepted government auditing standard or OMB audit guidance:

- The Prompt Payment Act, as implemented by the Prompt Payment Final Rule (formerly OMB Circular A-125, "Prompt Payment") requires Executive departments and agencies to pay commercial obligations within certain time periods and to pay interest penalties when payments are late. Based on our review of a control sample, interest was not always 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 2010 financial statement audit on November 19, 2010. For further details about this noncompliance issue see Appendix IV.

- The Debt Collection Improvement Act of 1996 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 is not properly reviewing and transferring debt related receivables resulting from individuals failure 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 IV.

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 (1) the Commission's financial statements are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles and (2) the Commission's management maintained effective internal control, the objectives of which are as follows:

- Financial Reporting: Transactions are properly recorded, processed, and summarized to permit the preparation of financial statements in conformity with U.S. generally accepted accounting principles, and assets are safeguarded against loss from unauthorized acquisition, use, or disposition.

- Compliance with laws and regulations: Transactions are executed in accordance with (1) laws governing the use of budget authority, (2) other laws and regulations that could have a direct and material effect on the financial statements, and (3) any other laws, regulations, and government-wide policies identified by OMB audit guidance.

We are also responsible for (1) 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 (2) 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 operation, including its internal control related to financial reporting (including safeguarding assets), 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; and

- tested compliance with selected provisions of the following laws and regulations: the Prompt Payment Act, Debt Collection Improvement Act, the Anti-Deficiency Act, and Various Pay and Allowance Acts.

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.

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, 2011. 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 1), 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 15, 2011

APPENDIX I

MANAGEMENT'S RESPONSE

UNITED STATES
CONSUMER PRODUCT SAFETY COMMISSION
WASHINGTON, DC 20207

Memorandum

Date: November 15, 2011

TO : Christopher Dentel
Inspector General

THROUGH: NJ Scheers
Office of Financial Management, Planning and Evaluation (EXFM)

FROM : Deborah Peebles Hodge
Director
Division of Financial Services

SUBJECT : Audit of FY 2011 Financial Statements

The audit report prepared by the Office of the Inspector General regarding CPSC's Financial Statements for Fiscal Year 2011 has been reviewed by the Division of Financial Services. We are pleased to have received an unqualified audit opinion. The Finance Division concurs with the findings and opinions expressed in the report. We acknowledge the five significant deficiencies pertaining to internal controls noted in the report: Financial Management and Reporting, Fund Balance with Treasury, Property Plant and Equipment, Accounts Payable and Expenses, and Earned Revenue. We are committed to resolving these issues. We developed and are implementing a corrective action plan which includes standard operating procedures, improved internal controls and monitoring to address these findings, improving communications with our service provider, and providing targeted training for financial services staff.

FINANCIAL STATEMENTS

CONSUMER PRODUCT SAFETY COMMISSION
BALANCE SHEET
AS OF SEPTEMBER 30, 2011 (CY) AND 2010 (PY)
(in dollars)

	2011	Restated Unaudited 2010
Assets:		
Intragovernmental:		
Fund Balance with Treasury (Note 2)	$ 41,116,102	$ 65,127,311
Total Intragovernmental	$ 41,116,102	$ 65,127,311
Accounts Receivable (Note 3)	374,645	962,161
Equipment, net (Note 4)	5,297,697	3,220,477
Other	1,158	1,484
Total Assets	$ 46,789,602	$ 69,311,433
Liabilities (Note 5):		
Intragovernmental Liabilities:		
Accounts Payable	$ 1,037,295	$ 2,000
Actuarial Federal Employees' Compensation Act Liabilities	368,391	353,052
Other Liabilities	554,664	621,567
Total Intragovernmental	1,960,350	976,619
Accrued Benefits	$ 5,452,080	$ 7,314,281
Accounts Payable	2,647,217	227,102
Other Liabilities	406,215	1,048,490
Total Liabilities	10,465,862	9,566,492
Net Position:		
Unexpended Appropriations	32,647,935	58,602,260
Cumulative Results of Operations	3,675,805	1,142,681
Total Net Position	36,323,740	59,744,941
Total Liabilities and Net Position	$ 46,789,602	$ 69,311,433

CONSUMER PRODUCT SAFETY COMMISSION
STATEMENT OF NET COST
FOR THE YEARS ENDED SEPTEMBER 30, 2011 (CY) AND 2010 (PY)
(in dollars)

Net Cost of Operations:	**2011**	**Restated Unaudited 2010**
Program Costs	$144,595,723	$110,577,661
Less: Earned Revenue	(2,757,523)	(2,744,342)
Total Net Cost of Operations (Note 6)	$141,838,200	$107,833,319

CONSUMER PRODUCT SAFETY COMMISSION
STATEMENT OF BUDGETARY RESOURCES
FOR THE YEARS ENDED SEPTEMBER 30, 2011 (CY) AND 2010 (PY)
(in dollars)

	2011	Restated Unaudited 2010
Budgetary Resources:		
Budget authority:		
Unobligated balances-brought forward, October 1	$ 7,291,366	$ 8,911,625
Recoveries of prior year unpaid obligations	1,634,907	682,191
Appropriation	115,018,000	118,213,681
Spending authority from offsetting collections	2,810,216	2,735,496
Advance Received	300,622	
Nonexpenditure Transfers	-	(37,714)
Permanently not available	(891,803)	(575,013)
Total Budgetary Resources	$ 126,163,308	$ 129,930,266
Status of Budgetary Resources:		
Direct	116,211,023	122,638,891
Reimbursable	3,055,583	-
Unobligated balances currently available	540,415	6,441,081
Unobligated balances apportioned for subsequent periods	-	-
Unobligated balances anticipated	-	-
Unobligated balances not available	6,356,287	850,294
Total Status of Budgetary Resources	$ 126,163,308	$ 129,930,266
Change in Obligated Balances:		
Unpaid obligated balance, brought forward, October 1	57,835,945	40,693,797
Obligations incurred	119,266,605	122,638,891
Gross outlays	(141,248,243)	(104,814,552)
Recoveries of prior year unpaid obligations, actual	(1,634,907)	(682,191)
Unpaid obligated balance, net-end of period (Note 7)	$ 34,219,400	$ 57,835,945
Net Outlays		
Gross outlays	141,248,243	104,814,552
Less: Offsetting collections	(3,110,838)	(2,735,496)
Less: Distributed offsetting receipts (Note 9)	(1,142,634)	(5,736,327)
Total Net Outlays	$ 136,994,771	$ 96,342,729

CONSUMER PRODUCT SAFETY COMMISSION
STATEMENT OF CHANGES IN NET POSITION
FOR THE YEAR ENDED SEPTEMBER 30, 2011
(in dollars)

	2011	Restated Unaudited 2010
Cumulative Results of Operations:		
Beginning Balances	$ 1,142,690	$ (1,748,163)
Budgetary Financing sources:		
Donations and forfeitures of cash and cash equivalents	34,358	-
Appropriations Used	140,035,033	105,497,336
Other	(3,953)	-
Other Financing Sources(Non-Exchange):		
Transfers-In/Out Without Reimbursement	(451,375)	451,375
Imputed Financing	4,757,252	4,775,452
Total Financing Sources	144,371,315	110,724,163
Net Cost of Operations	141,838,200	107,833,319
Net Change	2,533,115	2,890,844
Cumulative Results of Operations	$ 3,675,805	$ 1,142,681
Unexpended Appropriations:		
Beginning Balance	$ 58,602,251	$ 46,510,824
Budgetary Financing Sources:		
Appropriations Received	114,744,485	118,201,500
Other Adjustments	(663,768)	(612,728)
Appropriations Used	(140,035,033)	(105,497,336)
Total Budgetary Financing Sources	(25,954,316)	12,091,436
Total Unexpended Appropriations	$ 32,647,935	$ 58,602,260
Net Position	$ 36,323,740	$ 59,744,941

NOTE:
The 2005 Annual Fund was not closed out properly, resulting in a difference of $8.40 between 1) 2011 Cumulative Results of Operations, Beginning Balance and the 2010 Cumulative Results of Operations, Ending Balance as well as the 2) 2011 Unexpended Appropriations, Beginning Balance and 2010 Unexpended Appropriations, Ending Balance. While this entry is now corrected in Delphi, the 2005 Annual Fund is cancelled and is not included in current year financials, however the $8.40 is included in the prior year amounts, thereby creating the difference. This presentation difference will not be reflected in FY12.

CONSUMER PRODUCT SAFETY COMMISSION
STATEMENT OF CUSTODIAL ACTIVITY
FOR THE YEARS ENDED SEPTEMBER 30, 2011 (CY) AND 2010 (PY)
(in dollars)

	2011	Restated Unaudited 2010
Revenue Activity:		
Sources of Cash Collections:		
Miscellaneous:		
Civil Penalties & Fines	$ 5,996,256	$ 5,802,044
FOIA and Miscellaneous	$ 12,379	$ 13,992
Total Cash Collections	6,008,635	5,816,036
Accrual Adjustments	589,150	1,267,154
Total Custodial Revenue	6,597,785	7,083,190
Disposition of Collections:		
Transferred to Others:		
Treasury General Fund	(4,593,389)	(13,425,506)
(Increase)/Decrease in Amount Yet to be Transferred	(2,004,396)	(9,215,020)
Retained by Reporting Entity		15,557,336
Retained by Justice Department-Fees	-	-
Total Disposition of Collections	(6,597,785)	(7,083,190)
Net Custodial Activity	$ -	$ -

NOTES TO FINANCIAL STATEMENTS

Note 1 – Summary of Significant Accounting Policies

Reporting Entity

The U.S. Consumer Product Safety Commission (CPSC) is 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. Funds received from excess property sales are also maintained in this account.

Basis of Accounting and Presentation

The financial statements present the financial position, net cost of operations, changes in net position, budgetary resources, and custodial activities of the CPSC, in accordance with U.S. Generally Accepted Accounting Principles (GAAP) and in the format required by OMB Circular A-136, Financial Reporting Requirements. The statements have been prepared from the books and records of the CPSC and include the accounts of all funds under the control of the CPSC.

CPSC prepares annual financial statements in accordance with U.S. generally accepted accounting principles, which encompass both accrual and budgetary transactions. Under the accrual method, revenues are recognized when earned and expenses are recognized when a liability is incurred, without regard to receipt or payment of cash. Budgetary accounting facilitates compliance with legal constraints and controls over the use of federal funds. The accompanying financial statements are prepared on the accrual basis of accounting.

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.

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 balances with Treasury are 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.

Advances and Prepayments

Payments in advance of the receipt of goods and services are recorded as advances and recognized as expense when the related goods and services are received.

Accounts Receivable

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 does not retain these nonentity receipts.

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.

Accounts Payable and Accrued Liabilities

Liabilities Covered by Budgetary Resources represent liabilities funded by available budgetary resources, which include appropriated funds and reimbursable authority. Accounts payable and Accrued Benefits represent the amount of monies or other resources that are likely to be paid as the result of a transaction or event that has already occurred.

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, and amounts billed by the Department of Labor for Federal Employee's Compensation Act (disability) payments. In addition, liabilities not covered by budgetary resources include liabilities resulting from the agency's custodial activity. See Note 5.

Accrued 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. Accrued annual leave is reflected as a liability that is not covered by current budgetary resources. Sick leave and other leave are expensed as taken.

Retirement Plans and Other 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 Statement of Changes in Net Position and Reconciliation of Net Cost of Operations.

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 $16,500 for 2011 but do not receive a matching contribution from the CPSC. FERS participating employees may contribute up to $16,500 for 2011. For FERS employees, the CPSC's automatic contribution is 1 percent of the employee's gross pay to the TSP. The CPSC matches dollar for dollar on the first 3 percent of basic pay for each pay period. Each dollar of the next 2 percent of basic pay is matched 50 cents on the dollar. CPSC contributions are recognized as current operating expenses.

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).

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.

Net Position

The CPSC's net position is comprised of the following:

1. Unexpended appropriations include the amount of unobligated balances and undelivered orders. Unobligated balances are the amount of appropriations or other authority remaining after deducting the appropriation used and unpaid obligations.
2. Cumulative results of operations represent the net results of operations since inception, the cumulative amount of prior period adjustments, and the remaining book value of capitalized assets.

Revenues and Other Financing Sources

Exchange and Nonexchange revenue: Exchange revenue is the amount of money earned for goods and services provided to other agencies and the public. For example, reimbursable agreements revenue is exchange revenue. Nonexchange revenue is assessed against manufacturers, retailers or distributors who violate the Consumer Product Safety Act, Federal Hazardous Substance Act, and the Flammable Fabrics Act. For example, collections of fines are nonexchange revenue. Other Financing sources are funding such as appropriations, where resources are received and nothing of value is given in return. The following are examples of CPSC's exchange revenue, nonexchange revenue, and financing source:

Freedom of Information Act Collections (Exchange) – The CPSC charges a fee for the processing of Freedom of Information requests. The CPSC accounts for this exchange revenue as a custodial activity. FOIA fees are deposited in the U.S. Treasury and are not available for the CPSC to use.

Civil Penalty Collections (Non-Exchange) – The CPSC has authority to levy fines and penalties. The CPSC accounts for this exchange revenue as a custodial activity. Civil penalty collections are deposited in the U.S. Treasury and are not available for the CPSC to use.

Reimbursable Work Agreements (Exchange) - The 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 trading partners totaling $3.1 million in 2011. The CPSC's reimbursable agreements are with the following trading partners: 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 are for CPSC to utilize its hospital reporting system to collect injury data.

Appropriations (Financing Source) – The CPSC receives financing sources through direct appropriation from the general fund of the Treasury to support its operations.

Appropriations available for 2011 were $113,789,964 (annual); FY 2009-2011 $2,123,396; FY 2010-2011 $2,000,000; and FY 2011-2012 $998,000.

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.

Transactions with Related Parties

The CPSC has relationships and financial transactions with several government agencies. The more prominent of these relationships is the Centers for Disease Control and Prevention, the General Services Administration, Health and Human Services, Department of Transportation and the Department of Interior among others. The CPSC recognizes reimbursable work agreement revenue when earned, i.e. when goods have been delivered or services rendered.

Restatements

Certain fiscal year 2010 amounts have been restated to correct errors in the financial statements and notes. For further information, see Note 10 - Restatement of FY 2010 Financial Statements along with Note 2 - Fund Balance with Treasury, Note 3 – Accounts Receivable, Note 5 – Liabilities, Note 6 – Reconciliation of Net Cost of Operations to Budget, Note 7 – Unpaid Undelivered Orders, Net-End of Period and Note 9 – Analysis of Material Differences.

Note 2 – Fund Balance with Treasury

FUND BALANCES

	2011	Restated 2010
General Funds	$41,116,102	$65,127,311
Total	$41,116,102	$65,127,311

STATUS OF FUND BALANCE WITH TREASURY

	2011	Restated 2010
Unobligated Balance		
Available	$540,415	$7,226,428
Unavailable	6,356,287	850,653
Obligated Balance, Not Yet Disbursed	34,219,400	57,050,230
Total	$41,116,102	$65,127,311

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 3 – Accounts Receivable

Fiscal Year 2011

The CPSC's entity receivables are $3,967. 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 $370,678.

Restated Fiscal Year 2010

The CPSC's entity receivables are $2,332. 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 $959,829.

Note 4 – Property, Plant & Equipment (PP&E)

Property
Fiscal Year 2011

Classes of PP&E	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**	

Fiscal Year 2010

Classes of PP&E	Acquisition Cost	Accumulated Depreciation	Net Book Value	Service Life in Years
Equipment	$6,543,569	3,466,583	3,076,986	5-12
ADP Software	$965,260	821,770	143,491	5
Total	**7,508,829**	**4,288,353**	**3,220,477**	

Note 5 – Liabilities

Liabilities Covered by Budgetary Resources:	2011	Restated 2010
Accrued Benefits	$285,625	$709,307
Advances	300,622	-
Accounts Payable	4,747,329	3,069,636
Total Liabilities Covered by Budgetary Resources	5,333,576	3,778,944
Liabilities Not Covered by Budgetary Resources:		
Actuarial Federal Employees Compensation Act	368,391	353,052
Accrued Annual Leave	4,389,264	4,473,747
Unemployment Insurance	-	921
Other Liabilities	374,631	959,829
Total Liabilities Not Covered by Budgetary Resources	5,132,286	5,787,549
Total Liabilities	$10,465,862	$9,566,492

Other liabilities include receivables and collections for Civil Penalties and Fines, and Freedom of Information Act (FOIA) fees. These balances reflect Treasury's balance on the Government Wide Accounting & Reporting, Report of Unavailable Receipt Transactions, as of 9-30-11. CPSC maintains these accounts in a custodial capacity.

Note 6 – Reconciliation of Net Cost of Operations to Budget

FOR THE YEARS ENDED SEPTEMBER 30, 2011 (CY)
AND 2010 (PY) (in dollars)

		Restated
Resources Used to Finance Activities	**2011**	**2010**
Budgetary Resources Obligated		
Obligations incurred	$119,266,605	$122,638,891
Less: Spending Authority from Offsetting Collections	(4,745,746)	(3,417,688)
Obligations net of offsetting collections and recoveries	114,520,859	119,221,203
Less: Offsetting receipts	(1,142,634)	(5,736,327)
Net Obligations	113,378,225	113,484,876
Other Resources		
Transfers In/Out Without Reimbursement	(451,375)	451,375
Imputed Financing from costs absorbed by others	4,757,252	4,775,452
Total Resources Used to Finance Activities	117,684,102	118,711,703
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	(24,865,930)	16,454,821
Resources that Fund Expenses Recognized in Prior Periods	84,483	0
Other	(5,900,732)	(4,423,881)
Resources that finance the acquisition of assets	2,077,221	713,924
Other Resources or Adjustments to Net Obligated Resources That Do Not Affect Net Cost of Operations	455,328	(451,375)
Total resources used to finance items not part of the net cost of operations	(28,149,630)	12,293,489
Resources Used to Finance the Net Cost of Operations: (line 18)	$145,833,732	$106,418,214
Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period:		
Components Requiring Resources in Future Periods:		
Increase in Annual Leave Liability		451,310
Change in Other Liabilities (+/-)	19,292	11,912
Total Components of Net Cost of Operations that will Require Resources in the Future Period	19,292	463,222
Components not Requiring or Generating Resources:		

Depreciation and amortization	1,020,102	1,273,638
Total Components of Net Cost of Operations that will not Require or Generate Resources	1,020,102	1,273,638
Total Components of Net Cost of Operations that will not Require or Generate Resources in the Current Period	1,039,394	1,736,860
Other Adjustments (unreconciled difference to SNC)	(5,034,926)	(321,756)
Net Cost of Operations	$141,838,200	$107,833,319

Note 7 – Unpaid Undelivered Orders, net - end of period

	2011	**Restated 2010**
Total Unpaid Undelivered Orders	$29,186,446	$54,052,048

Note 8 – Commitments and Contingencies

CPSC may face reasonably possible claims estimated at $3,953. These claims relate to the Federal Torts Claim Act and the Equal Employment Opportunity Act.

Note 9 – Analysis of Material Differences – FY 2011

	Budgetary Resources	**Obligations Incurred**	**Net Outlays**
Combined Statement of Budgetary Resources	**$126,163,308**	**$119,266,605**	**$136,994,771**
SF 133, Report on Budget Execution and Budgetary Resources	**$126,163,308**	**$119,266,605**	**$138,137,405**
Difference	**0**	**0**	**($1,142,634)**

CPSC does not have any material differences between the Statement of Budgetary Resources and SF 133 as of 9/30/2011. The $1,142,634 net outlays difference is due to the distributed offsetting receipts reported on the Combined Statement of Budgetary Resources and not on the SF 133 (not required).

Analysis of Material Differences – Restated FY 2010

	Budgetary Resources	Obligations Incurred	Net Outlays
Combined Statement of Budgetary Resources	**$129,930,266**	**$122,638,891**	**$96,342,729**
SF 133, Report on Budget Execution and Budgetary Resources	**$129,976,107**	**$122,684,741**	**$102,065,031**
Difference	**($45,841)**	**($45,850)**	**($5,722,302)**

The $5,722,302 net outlays difference is due to the distributed offsetting receipts reported on the Combined Statement of Budgetary Resources and not on the SF 133 (not required). See Note 10 – Restatement of FY 2010 Financial Statements, Statement of Budgetary Resources section, for details related to the other differences.

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Note 10 – Restatement of FY 2010 Financial Statements

CPSC has restated its FY 2010 financial statements to correct material errors. During FY 2011, CPSC noted that the financial statements were not adequately supported by the CPSC system of record. This resulted in aggregate balance sheet errors of $5.7M in FY 2010 for Miscellaneous Receipts adjustments. To correct the errors, CPSC restated the FY 2010 financial statement package. The financial details and subsequent corrections to the financial package are described in detail below. The errors were the result of improper accounting application of records in the financial system in preparing the financial statements. At the time, CPSC was still dealing with the transition to a new financial system service provider and had not adequately defined the division of duties between CPSC and the service provider, nor had internal controls and subsequent monitoring been effectively implemented. The restatement results in the proper reporting of the financial position of the FY 2010 for comparative purposes in FY 2011. To remedy the issue, CPSC moved to full service accounting with the service provider in May FY 2011, has defined roles and responsibilities between the agency and service provider, and is actively implementing stronger internal controls and monitoring activities. The financial reporting procedures have been strengthened and the proper amounts reported. During FY 2012 CPSC will employ additional reviews to strengthen the statement reporting process.

BALANCE SHEET

Total Assets:

The difference of the FY 2010 originally stated amount and the restated amount is approximately $5.7M. This major difference consists of $5.7M in cash for the miscellaneous receipt funds. These funds were overstated in the presentation on the Balance Sheet Fund Balance with Treasury line.

A reconciliation was performed between CPSC's Property Management System (PMS) and the Delphi Accounting System. It was determined that there was a $395K difference in FY 2009 that was recorded as an expense instead of an asset. The difference has been corrected in FY 2011 with a decrease in expenses and an increase in assets. The net result of this adjustment is for FY 2009 and prior periods. The difference of approximately $2M for FY 2010 was adjusted in FY 2011 with a decrease in expenses and an increase in assets. For FY 2011 the Equipment line on the Balance Sheet is reconciled and agrees with the CPSC Property Management System.

Total Liabilities:

The difference of the FY 2010 originally stated amount and the restated amount is approximately $10.4M. This difference is comprised of an overstatement of custodial activity in the other liabilities section of $5.7M, plus an overstatement of liabilities due to the inclusion of Imputed Cost amounting to $4.7M.

Total Net Position, Statement of Net Cost and Statement of Changes in Net Position:

The difference of the FY 2010 originally stated amount and the restated amount is approximately $4.7M. This difference is comprised of an overstatement of gross cost, due primarily to overstatement of Unfunded Leave and Unfunded FECA expense, of approximately $4.3M in the Statement of Net Cost. The net cost amount flows from the Statement of Net Cost to the Statement of Changes in Net Position and onto the net position portion of the Balance Sheet.

STATEMENT OF BUDGETARY RESOURCES

Total Budgetary Resources:

The difference of the FY 2010 originally stated amount and the restated amount is approximately $45K. The resources were overstated by approximately $59K due to collections.

Total Status of Budgetary Resources:

The difference of the FY 2010 originally stated amount and the restated amount is approximately $45K. Obligations in total were overstated by $45K.

REQUIRED SUPPLEMENTARY INFORMATION

Deferred Maintenance

CPSC does not have any items for which maintenance has been deferred.

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.

APPENDIX III

COMMISSION'S ANALYSIS OF RESTATED 2010 FINANCIAL STATEMENTS

The restatements as reflected on the FY 2010 *Balance Sheet*, the *Statement of Net Cost*, the *Statement of Changes in Net Position, the Statement of Budgetary Resources* and the *Statement of Custodial Activity* are presented in the charts below.

Balance Sheet	Fy 2010 Originally Stated	Effect of Restatement	FY 2010 as Restated
Assets			
Intragovernmental			
1. Fund Balance With Treasury	$70,863,638.00	$ (5,736,327.33)	$65,127,310.67
2. Investments			
3. Accounts Receivable			
4. Loans Receivable			
5. Other			
6. Total Intragovernmental	$70,863,638.00	$ (5,736,327.33)	$65,127,310.67
Assets With the Public			
7. Cash and Other Monetary Assets			
8. Investments			
9. Accounts Receivable, Net	$ 995,058.00	$ (32,897.45)	$ 962,160.55
10. Taxes Receivable, Net			
11. Loans Receivable and Related Foreclosed Property, Net			
12. Inventory and Related Property, Net			
13. General Property, Plant, and Equipment, Net	$ 3,220,477.00	$ (0.21)	$ 3,220,476.79
14. Other	$ -	$ 1,484.80	$ 1,484.80
Advances to Others	$ 1,485.00	$ (1,485.00)	$ -
15. Total Assets	$75,080,658.00	$ (5,769,225.19)	$69,311,432.81
16. Stewardship PP&E			
Liabilities			
Intragovernmental			
17. Accounts Payable	$ 173,078.00	$ (171,078.00)	$ 2,000.00
18. Debt			
19. Other	$ 353,052.00	$ 621,567.03	$ 974,619.03
20. Total Intragovernmental	$ 526,130.00	$ 450,489.03	$ 976,619.03
Liabilities With the Public			
21. Accounts Payable	$ -	$ 227,102.22	$ 227,102.22
22. Loan Guarantee Liability			
23. Debt Held by the Public			
24. Federal Employee and Veteran Benefits			
25. Environmental and Disposal Liabilities			
26. Benefits Due and Payable			
27. Other	$ 6,729,053.00	$ 1,633,718.19	$ 8,362,771.19
Accrued Benefits	$ 8,023,588.00	$ (8,023,588.00)	$ -
Imputed Financing Sources	$ 4,775,452.00	$ (4,775,452.00)	$ -
Unemployment Insurance	$ 921.00	$ (921.00)	$ -
27A. Other - Grants Accrual			
24009900 RECLASS			
28. Total Liabilities	$20,055,144.00	$ (10,488,651.56)	$ 9,566,492.44
29. Commitments and Contingencies			
Net Position			
30. Unexpended Appropriations - Earmarked Funds			
31. Unexpended Appropriations - Other Funds	$61,404,392.00	$ (2,801,773.15)	$58,602,618.85
32. Cumulative Results of Operations - Earmarked Funds			
33. Cumulative Results of Operations - Other Funds	$ (6,378,878.00)	$ 7,521,199.52	$ 1,142,321.52
34. Total Net Position	$55,025,514.00	$ 4,719,426.37	$59,744,940.37
35. Total Liabilities and Net Position	$75,080,658.00	$ (5,769,225.19)	$69,311,432.81

Statement of Net Cost	Fy 2010 Originally Stated	Effect of Restatement	FY 2010 as Restated
Program Costs:			
Program A:			
1. Gross costs	$ 114,939,496.00	$ (4,361,834.96)	$ 110,577,661.04
2. Less: Earned Revenue	$ 2,795,379.00	$ (51,036.66)	$ 2,744,342.34
3. Net Program Costs	$ 107,833,318.70	$ -	$ 107,833,318.70
4. (Gain)/Loss on pension, ORB, or OPEB Assumption changes			
5. Net program expenses including Assumption changes	$ 112,144,117.00	$ (4,310,798.30)	$ 107,833,318.70
6. Costs not assigned to programs			
7. Less: Earned revenues not attributed to programs			
8. Net cost of operations	$ 112,144,117.00	$ (4,310,798.30)	$ 107,833,318.70

Statement of Changes in Net Position	Fy 2010 Originally Stated	Effect of Restatement	FY 2010 as Restated
Cumulative Results of Operations:			
1. Beginning Balances	$ (4,317,824.00)	$ 2,569,660.93	$ (1,748,163.07)
2. Adjustments (+/-)			
2a. Changes in Accounting Principles (+/-)			
2b. Corrections of Errors (+/-)			
3. Beginning Balances, As Adjusted	$ (4,317,824.00)	$ 2,569,660.93	$ (1,748,163.07)
Budgetary Financing Sources:			
4. Other Adjustments (Rescissions, etc.) (+/-)	$ 2,613,327.00	$ (2,613,327.00)	$ -
5. Appropriations Used	$ 105,459,619.00	$ 37,717.27	$ 105,497,336.27
6. Nonexchange Revenue			
7. Donations and Forfeitures of Cash and Cash Equivalents	$ (13,681.00)	$ 13,681.00	$ -
8. Transfers-In/Out Without Reimbursement (+/-)			
9. Other (+/-)	$ -	$ -	$ -
Reimbursement received	$ (2,753,072.00)	$ 2,753,072.00	$ -
Accounts receivable	$ (67.00)	$ 67.00	$ -
Advance	$ 1,485.00	$ (1,485.00)	$ -
Other Financing Sources (Non Exchange):			
10. Donations and Forfeitures of Property			
11. Transfers-In/Out Without Reimbursement (+/-)	$ -	$ 451,375.02	$ 451,375.02
12. Imputed Financing	$ 4,775,452.00	$ -	$ 4,775,452.00
13. Other (+/-)			
14. Total Financing Sources	$ 110,083,063.00	$ 641,100.29	$ 110,724,163.29
15. Net Cost of Operations (+/-)	$ 112,144,117.00	$ (4,310,798.30)	$ 107,833,318.70
16. Net Change	$ 222,227,180.00	$ (219,246,335.41)	$ 2,980,844.59
17. Cumulative Results of Operations	$ (6,378,878.00)	$ 7,521,559.52	$ 1,142,681.52
Unexpended Appropriations:			
18. Beginning Balances	$ 46,472,263.00	$ 38,560.80	$ 46,510,823.80
19. Adjustments (+/-)			
19a. Changes in Accounting Principles (+/-)			
19b. Corrections of Errors (+/-)			
20. Beginning Balances, as Adjusted	$ 46,472,263.00	$ 38,560.80	$ 46,510,823.80
Budgetary Financing Sources:			
21. Appropriations Received	$ 118,200,000.00	$ 1,499.51	$ 118,201,499.51
22. Appropriations Transferred-In/Out (+/-)			
23. Other Adjustments (Rescissions, etc.) (+/-)	$ -	$ (612,728.19)	$ (612,728.19)
Reimbursement received	$ 2,753,072.00	$ (2,753,072.00)	$ -
Cancellation of expired year	$ (575,005.00)	$ 575,005.00	$ -
Donated Revenue	$ 13,681.00	$ (13,681.00)	$ -
24. Appropriations Used	$ (105,459,619.00)	$ (37,717.27)	$ (105,497,336.27)
25. Total Budgetary Financing Sources	$ 14,932,129.00	$ (2,840,693.95)	$ 12,091,435.05
26. Total Unexpended Appropriations	$ 61,404,392.00	$ (2,802,133.15)	$ 58,602,258.85
27. Net Position	$ 55,025,514.00	$ 4,719,426.37	$ 59,744,940.37

Statement of Budgetary Resources	Fy 2010 Originally Stated	Effect of Restatement	FY 2010 as Restated
BUDGETARY RESOURCES			
1. Unobligated balance; start of year			
1A. Brought forward, October 1 (+ or -)	$ 8,873,910.00	$ 37,714.93	$ 8,911,624.93
1B. Adjustment to unobligated balance brought forward , October 1 (+ or -)			
2. Recoveries of prior year unpaid obligations:			
2A. Actual	$ 681,823.00	$ 368.26	$ 682,191.26
2B. Anticipated			
3. Budget authority:			
3A. Appropriation:			
3A1. Actual	$ 118,200,000.00	$ 13,681.34	$ 118,213,681.34
3A2. Anticipated			
3B. Borrowing Authority			
3C. Contract Authority			
3D. Spending Authority from Offsetting Collections (gross):			
3D1. Earned			
3D1a. Collected	$ 2,795,379.00	$ (59,882.65)	$ 2,735,496.35
3D1b. Change in receivables from Federal sources			
3D2. Change in unfilled customer orders (+ or -):			
3D2a. Advance received			
3D2b. Without advance from Federal sources			
3D3. Anticipated for rest of year			
3D4. Previously unavailable			
3D5. Expenditure transfers from trust funds:			
3D5a. Collected			
3D5b. Change in receivables from trust funds			
3D5c. Anticipated			
3E. Subtotal	$ -	$ 120,949,177.69	$ 120,949,177.69
4. Nonexpenditure transfers, net:			
4A. Actual transfers, budget authority (+ or -)			
4B. Anticipated transfers, budget authority (+ or -)			
4C. Actual transfers, unobligated balances (+ or -)	$ -	$ (37,714.87)	$ (37,714.87)
4D. Anticipated transfers, unobligated balances (+ or -)			
5. Temporarily Not Available Pursuant to Public Law (-)			
6. Permanently not available:			
6A. Cancellations of expired and no-year accounts (-)	$ (575,005.00)	$ (8.32)	$ (575,013.32)
6B. Enacted reductions (-)			
6C. Capital transfers and redemption of debt (-)			
6D. Other authority withdrawn (-)			
6E. Pursuant to Public Law __ (-)			
6F. Anticipated rest of year (-)			
7. Total Budgetary Resources	$ 129,976,107.00	$ (45,841.31)	$ 129,930,265.69
STATUS OF BUDGETARY RESOURCES			
8. Obligations incurred:			
8A. Direct:			
8A1. Category A	$ 119,889,362.00	$ 2,749,529.15	$ 122,638,891.15
8A2. Category B			
8A3. Exempt from apportionment			
8B. Reimbursable:			
8B1. Category A			
8B2. Category B	$ 2,795,379.00	$ (2,795,379.00)	$ -
8B3. Exempt from apportionment			
8C. Subtotal	$ 122,684,741.00	$ (46,209.85)	$ 122,638,531.15
9. Unobligated balance:			
9A. Apportioned:			
9A1. Balance, currently available	$ 4,476,786.00	$ 1,950,613.75	$ 6,427,399.75
9A2. Apportioned for subsequent periods			
9A3. Anticipated (+ or -)			
9B. Exempt from apportionment:			
9B1. Balance, currently available	$ -	$ 13,681.34	$ 13,681.34
9B2. Anticipated (+ or -)			
9C. Subtotal	$ -	$ 6,441,081.09	$ 6,441,081.09

Statement of Budgetary Resources (cont.)	Fy 2010 Originally Stated	Effect of Restatement	FY 2010 as Restated
10. Unobligated balance not available:			
10A. Deferred			
10B. Withheld pending rescission			
10C. Other	$ 2,814,580.00	$ (1,964,286.55)	$ 850,293.45
11. Total status of budgetary resources	$ 129,976,107.00	$ (45,841.31)	$ 129,930,265.69
CHANGE IN OBLIGATED BALANCES			
12. Obligated balance, net; start of year:			
12A. Unpaid obligations, start of year:			
12A1. Unpaid obligations, brought forward, October 1 (+)	$ 40,693,437.00	$ 359.77	$ 40,693,796.77
12A2. Adjustment to unpaid obligations, brought forward, October 1 (+ or -)			
12B. Uncollected customer payments from Federal sources, start of year:			
12B1. Uncollected customer payments from Federal sources, brought forward, October 1 (-)			
12B2. Adjustment to uncollected customer payments from Federal sources, brought forward, October 1 (+ or -)			
12C. Total, unpaid obligated balance, brought forward, net	$ 40,693,437.00	$ 359.77	$ 40,693,796.77
13. Obligations incurred (+)	$ 122,684,741.00	$ (45,849.85)	$ 122,638,891.15
14. Gross Outlays (-)	$ (104,860,410.00)	$ 45,857.87	$ (104,814,552.13)
15. Obligated balance transfers, net:			
15A. Actual transfers, unpaid obligations (+ or -)			
15B. Actual transfers, uncollected customer payments from federal sources (+ or -)			
15C. Total unpaid obligated balance transferred, net			
16. Recoveries of prior-year unpaid obligations, actual (-)	$ (681,823.00)	$ (368.26)	$ (682,191.26)
17. Change in uncollected customer payments from Federal sources			
18. Obligated balance, net, end of period:			
18A. Unpaid obligations (+)	$ 57,835,945.00	$ (0.47)	$ 57,835,944.53
18B. Uncollected customer payments from Federal sources (-)			
18C. Total, unpaid obligated balance, net end of period	$ 57,835,945.00	$ (0.47)	$ 57,835,944.53
NET OUTLAYS			
19. Net Outlays:			
19A. Gross Outlays (+)	$ 104,860,410.00	$ (45,857.87)	$ 104,814,552.13
19B. Offsetting collections (-)	$ (2,795,379.00)	$ 59,882.65	$ (2,735,496.35)
19C. Less: Distributed offsetting receipts	$ (5,736,327.00)	$ (0.48)	$ (5,736,327.48)
19D. Net outlays	$ 96,328,704.00	$ 14,024.30	$ 96,342,728.30

Statement of Custodial Activities	FY 2010 Originally Stated	Effect of Restatement	FY 2010 as Restated
6. Custom Duties	0	-	0
13. Refunds and Other Payments	-	-	-
15. Net Custodial Activty	-	-	-
8. Total Cash Collections	5,803,677.00	10,167.63	5,813,844.63
10. Total Custodial Revenue	5,803,677.00	1,244,424.00	7,048,101.00
12. (Increase)/Decrease in Amount Yet to Be Transferred (+/-)		(202,095.33)	(202,095.33)
11. Transferred to Others (by Recipient):	(5,803,677.00)	(7,586,740.48)	(13,390,417.48)
7. Miscellaneous	-	5,813,844.63	5,813,844.63
4. Estate and Gift Taxes	-	-	-
1. Individual Income and FICA/SECA Taxes	-	-	-
2. Corporate Income Taxes	-	-	-
3. Excise Taxes	-	-	-
9. Accrual Adjustments	-	1,234,256.37	1,234,256.37
14. Retained by the Reporting Entity	-	20,640,613.81	20,640,613.81
Revenue Activity:		-	
5. Federal Unemployment Taxes	-	-	-
Disposition of Collections:		-	
Sources of Cash Collections:		-	

APPENDIX IV

INTERNAL CONTROL SIGNIFICANT DEFICIENCIES

Appendix IV
Internal Control Significant Deficiencies and Other Matters of Significance
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Contents

Introduction

Appendix IV herein describes the control deficiencies, which collectively resulted in a significant deficiency, for the year ended September 30, 20011, and our recommendations.

Financial Management and Reporting

(1) Improvement Needed Surrounding Controls Over the Financial Reporting Process

a. Financial Monitoring Reports

Condition:
We noted that 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. The reports are as follows:

- PO Module vs. GL (4801) Recon
- Suspense Aging by Fund
- Accounts Receivable vs. General Ledger Recon
- Accounts Payable vs. General Ledger Recon
- Budgetary to Proprietary Query
- Cash vs. GWA Reconciliation
- Reconciliation of Statement of Difference (224)
- Abnormal Balances Report

Therefore, we requested the above reports as of 4/30/11 to evaluate the design and implementation of the control, as controls should have been designed prior to the transition. Upon review, we noted that 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.

We further noted that the Accounts Receivable vs. General Ledger Report was not signed off or reviewed by an FMFS accountant or management. We further noted that the reports that were completed had no analysis performed over the balances, explanations for reconciling items, or explanations for variances identified. Further, based on the lack of detail in the reports, we could not assess which accountant had obtained the report and if it was the assigned accountant. Ultimately, we noted that all reports obtained during the review, were signed off by the Financial Reporting Accountant and the Deputy Director of FMFS.

In a separate review of the Monitoring the GL Standard Operating Procedure (SOP) draft document, the processes to be used in the analysis and review of these reports were not addressed or documented. Although it was noted in our walkthrough discussion that the

FMFS accountants will run the reports in question and then discuss the issues they find with ESC in weekly focus meetings, if needed; there is no further documentation to describe the accountant's roles and responsibilities in using these reports.

Cause:
The Division of Financial Management (FMFS) transitioned transactional processing in the middle of fiscal year, which caused significant changes to the internal control structure of FMFS. Although the transition date occurred as of May 1, 2011, the controls were not completely designed and/or in place so as to be effective at this point in time. Training of FMFS staff was still occurring and the positions within the department were changing to accommodate the transition. The degree of planning for the transition to ESC was not adequate to develop the controls and have them in place at the point in time the transition took place.

Effect:
The weakness identified in internal control can contribute to possible misstatements of reported financial statement amounts; which can lead to significant deficiencies and/ or material weaknesses or fraudulent reporting of the Commission's financial information.

Criteria:
Statement of Federal Financial Accounting Concepts Number 1: Objectives of Federal Financial Reporting states that "Financial Reporting is the means of communication with those who use financial information. For this communication to be effective, information in financial reports must have these basic characteristics: understandability, reliability, relevance, timeliness, consistency, and comparability".

OMB Circular A-123, *Management's Responsibility for Internal Control* states that "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."

OMB Circular A-136, *Financial Reporting Requirements*, this Circular establishes a central point of reference for all Federal financial reporting guidance for Executive Branch departments, agencies, and entities required to submit audited financial statements, interim financial statements, and Performance and Accountability Reports (PAR) under the Chief Financial Officers Act of 1990 ("CFO Act") (Pub. L. No. 101 – 576), the Accountability of Tax Dollars Act of 2002 ("ATDA") (Pub. L. No. 107 – 289), and Annual Management Reports under the Government Corporations Control Act (31 U.S.C. § 9101 et seq.).

Recommendation:

1. We recommend that if FMFS management is considering all of the reports listed above for the financial reporting monitoring and oversight process, then the process should be standardized in a SOP(s) for specific process areas.
2. We recommend reports be run by the Accountant that is in charge of the associated accounting area on a determined periodic basis. Coordinating the review of these reports with the FMFS accountant's current specific roles and responsibilities over process areas will maximize the efficiency of the overall financial statement review.
3. We further recommend that if the above reports are to be used, that they are obtained and reviewed timely and that the proper oversight techniques are used by the FMFS accountants and management to ensure the proper reporting of financial statement transactions

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

b. Procedures over Opening Balances

Condition:
During our assessment of the design and implementation of internal controls over financial reporting, we noted that no review had been performed over the FY 2011 opening balances of the CPSC financial statements. At this time, we inquired of FMFS Management what procedures were in place to ensure that an adequate review of the opening balances of the CPSC financial statement took place. Management's response was that they were unsure about the procedures in place and could not provide any review done over the 10/1/11 opening balances. However, following the issuance of this finding, FMFS management was able to provide a review over opening balances.

Cause:
Opening balances are determined through routines performed at year-end within the Delphi accounting system. As such, the Division of Financial Management has not established and implemented proper procedures, including management review and oversight controls over the opening balances for financial reporting.

Effect:
The weakness identified in internal control can contribute to possible misstatements of reported financial statement amounts; which can lead to significant deficiencies and/or material weaknesses or fraudulent reporting of the Commission's financial information.

Criteria:
Statement of Federal Financial Accounting Concepts Number 1: Objectives of Federal Financial Reporting states that "Financial Reporting is the means of communication with those who use financial information. For this communication to be effective, information in financial reports must have these basic characteristics: understandability, reliability,

relevance, timeliness, consistency, and comparability".

OMB Circular A-123, *Management's Responsibility for Internal Control* states that "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."

OMB Circular A-127, *Financial Management Systems*, prescribes policies and standards for executive departments and agencies to follow when managing their financial management systems. Revisions include incorporating new requirements for agencies to adopt standard financial business practices and to use financial management shared service providers to implement and maintain their core financial system.

OMB Circular A-136, *Financial Reporting Requirements*, this Circular establishes a central point of reference for all Federal financial reporting guidance for Executive Branch departments, agencies, and entities required to submit audited financial statements, interim financial statements, and Performance and Accountability Reports (PAR) under the Chief Financial Officers Act of 1990 ("CFO Act") (Pub. L. No. 101 – 576), the Accountability of Tax Dollars Act of 2002 ("ATDA") (Pub. L. No. 107 – 289), and Annual Management Reports under the Government Corporations Control Act (31 U.S.C. § 9101 et seq.).

CPSC Directive, Order No. 1200.3: The financial management system of CPSC shall meet the objectives set forth in Section 6 of OMB Circular A-127. These objectives are intended to establish a framework for complying with applicable law, appropriate budget and accounting principles and standards, Treasury reporting requirements, and the best contemporary financial practice. Systems developed and operated under this Circular shall be the source for financial information used in the budget, Treasury financial statements, financial reports to Congress, and other financial reports. CPSC shall establish and maintain a single, integrated financial management system, which may be supplemented by subsidiary systems. Data needed in this system and other agency systems shall be posted automatically to appropriate accounts or other parts of the system or systems. Funds shall be expended only for systems that meet the requirements of OMB Circular A-127.

Recommendation:
4. We recommend that the FMFS division develops procedures over opening balances in order to review the accuracy of the beginning balances for each fiscal year. The procedures developed should be incorporated into a Standard Operating Procedure document as part of the financial reporting process.

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

c. *Interim Financial Statement Review - 1*

Condition:
During our review of the 3/31/11 Financial Statements, including the Balance Sheet, Statement of Net Cost, and Statement of Budgetary Resources, we noted that 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.

In addition, we noted that Director and Deputy Director of the Division of Financial Management (FMFS) had reviewed the financial statements.

Cause:
FMFS did not have the proper controls in place to monitor the financial review work being performed by FMFS Accountants and Interns. FMFS did not follow the internal guidance of the Financial Statement SOP and checklist for preparation and review procedures.

Effect:
Currently, the FMFS accounting service provider, Enterprise Service Center (ESC), prepares the financial statements for the CPSC. However, in the prior year, the statements were prepared manually by FMFS. The balances reported in the prior year by FMFS are different from what ESC calculated for the same period. When ESC prepared the CPSC's 3/31/11 Financial Statements they used the prior year balances they calculated rather than the prior year balances reported to OMB by the CPSC. FMFS personnel did not review the 3/31/11 financial statements to ensure that the prior year balances reported to OMB agreed with the balances previously reported for the same period. We noted that FMFS has a Standard of Operating Procedure (SOP) that covers the review of the financial statements provided by ESC via a checklist. As such, it was noted that at the time of the financial statement review, the checklist did not include a review of prior year balances, which resulted in the balances not being reviewed.

Criteria:
Statement of Federal Financial Accounting Concepts Number 1: Objectives of Federal Financial Reporting states that "Financial Reporting is the means of communication with those who use financial information. For this communication to be effective, information in financial reports must have these basic characteristics: understandability, reliability, relevance, timeliness, consistency, and comparability". Characteristics related to this finding involve exceptions regarding the following:

Comparability: "Financial reporting should help report users make relevant comparisons among similar federal reporting units, such as comparisons of the costs of specific functions or activities. Comparability implies that differences among financial reports should be caused by substantive differences in the underlying transactions or organizations rather than by the mere selection of different alternatives in accounting procedures or practices."

OMB Circular A-123, *Management's Responsibility for Internal Control* states that "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."

OMB Circular A-136, *Financial Reporting Requirements*, this Circular establishes a central point of reference for all Federal financial reporting guidance for Executive Branch departments, agencies, and entities required to submit audited financial statements, interim financial statements, and Performance and Accountability Reports (PAR) under the Chief Financial Officers Act of 1990 ("CFO Act") (Pub. L. No. 101 – 576), the Accountability of Tax Dollars Act of 2002 ("ATDA") (Pub. L. No. 107 – 289), and Annual Management Reports under the Government Corporations Control Act (31 U.S.C. § 9101 et seq.). Specifically, Circular A-136 requires that basic statements and the related notes, should present amount for current year and the prior year, except for the Statement of Social Insurance.

Recommendation:
5. We recommend that the FMFS division strengthens controls over financial reporting in relation to management oversight and review of the financial statements. Although management has an SOP and checklist established in the financial reporting process area, attention to specific line item balances should be referenced back to supporting documentation in order to verify that the account balances are correct at the trial balance detail level, which then flows through to the financial statements.
6. We recommend that FMFS management resubmits the correct 3/31/11 comparative statements to OMB.

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

d. Interim Financial Statements Review - 2

Condition:
During our review of the 6/30/11 Financial Statements, we noted that the 6/30/11 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 that the statements were reviewed and approved by the FMFS Director and Deputy Director on 7/21/11. The statements were then submitted to OMB on 7/22/11 for the Commissions quarterly financial reporting.

We noted that the Financial Reporting Checklist was created for the review and oversight of the financial statements, as prepared by FMFS' accounting service provider, Enterprise Service Center (ESC) in order to determine whether the statements prepared are complete and accurate. When the financial checklist is completed after the financial statements have been submitted to OMB, a timely and proper review is not being completed and/or documented by FMFS Management.

Following the issuance of this finding to Management on 8/22/2011, FMFS management was able to provide additional documentation to support the review of the financial statements. This additional support was provided on 8/26/2011, which included various email communication between FMFS Management and the FMFS Financial Reporting Accountant. Further, FMFS Management indicated that checklist provided and the completion date annotated signifies when the checklist was prepared and not when the actual review was completed. FMFS Management asserted that the FMFS Financial Reporting Accountant was given approval orally to submit the financial statements on 7/22/2011. In addition to the support provided, FMFS management indicated on 8/29/2011 that the Financial Statement Review Checklist is part of a *draft* SOP, which was being "tested" for the period and not finalized. Therefore, FMFS management suggested that the established Checklist has little relevance and was not required to be completed in a timely manner, if other support was provided to prove that the review was conducted timely. During our review of the supporting documents for the FMFS Financial Statement Checklist (Appendix B) within the Standard Operating Procedures (SOP), we noted 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.

Cause:
FMFS did not have the proper controls in place to monitor the financial review work being performed by FMFS Accountants and Interns. FMFS did not follow the internal guidance of the Financial Statement SOP and checklist for preparation and review procedures.

We noted that FMFS must provide their financial statements to OMB, within 21 calendar days of the quarter end, as required by Circular A-136. Under this requirement, FMFS 3rd quarter statements were due to OMB on 7/22/2011 (to account for the 7/4/2011 Federal holiday). As such, we noted that FMFS and ESC closed the 6/30/2011 accounting period close to the deadline in which the financial statements were due to OMB. As a result, FMFS had a limited period of time to review the statements and all supporting schedules provided by ESC in order to meet OMB reporting requirements. Thus, the Financial Reporting Checklist was completed after the OMB submission date.

FMFS Management indicated that the FMFS Accountant responsible for performing the financial statement review and completing the checklist was out on sick leave. Therefore, the Accountant was unable to complete the checklist at the time the review was performed, and Management indicated that other "*priorities*" prevented them from completing the Checklist themselves.

Effect:
The preparation of the checklist and supporting documents by an FMFS intern can lead to mistakes in the review over the financial statements. An experienced FMFS Accountant, as noted in the SOP, should be performing this step in the monitoring and oversight as well as FMFS Management for the Financial Statement review. We noted that a lack of internal controls over the review of the financial statements can result in a weakness of internal controls over the financial statements. Such a weakness in internal control can contribute to possible misstatements in the financial statement amounts, which can lead to significant deficiencies and/or material weaknesses or fraudulent reporting of the Commission's financial information.

Criteria:
Statement of Federal Financial Accounting Concepts Number 1: *Objectives of Federal Financial Reporting* states, "Financial Reporting is the means of communication with those who use financial information. For this communication to be effective, information in financial reports must have these basic characteristics: understandability, reliability, relevance, timeliness, consistency, and comparability".

OMB Circular A-123, *Management's Responsibility for Internal Control* states that "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."

OMB Circular A-136, *Financial Reporting Requirements*, this Circular establishes a central point of reference for all Federal financial reporting guidance for Executive Branch departments, agencies, and entities required to submit audited financial statements, interim financial statements, and Performance and Accountability Reports (PAR) under the Chief Financial Officers Act of 1990 ("CFO Act") (Pub. L. No. 101 – 576), the Accountability of Tax Dollars Act of 2002 ("ATDA") (Pub. L. No. 107 – 289), and Annual Management Reports under the Government Corporations Control Act (31 U.S.C. § 9101 et seq.). Specifically, A-136 states "Agencies will submit unaudited interim financial statements to OMB 21 calendar days after the end of each of the first three quarters of the fiscal year. This Circular makes this a permanent quarterly requirement. Agencies participating in the pilot program get 21 business days".

Recommendation:
7. We recommend that the FMFS division strengthens controls over financial reporting in relation to management oversight and review of the financial statements. Although management has an SOP and checklist established in the financial reporting process area, the review was not performed in accordance with the SOP. FMFS Accountants and Management should be reviewing all financial statements and accompanying information

in detail before they are submitted to OMB to ensure completeness and accuracy of the information provided on behalf of the Commission. This may require FMFS Management to take a more active approach in financial reporting and working more closely with ESC to ensure information needed to make external reporting requirements is provided from ESC in timely fashion to FMFS.

8. Based on the discussion with FMPB and FMFS management on 8/29/2011 and the additional support received, we recognize that the review of the financial statements as of 6/30/2011 did occur on a timely basis, but not in accordance with the SOP and checklist used during the period-end; nor was the review documented properly. While there is disagreement, between the OIG and FMFS Management on whether the SOP checklist should be evaluated as part of the audit process, FMFS did utilize the checklist as part of the financial reporting review of the financial statements for the period. Further, the OIG considers the checklist to function as a key internal control for period. As such, the OIG noted that Financial Statement Review Checklist should function as a "checklist", which under normal circumstances would be completed while the review was being conducted to ensure all steps were performed completely and accurately. Thus, going forward we recommend that FMFS utilize the checklist in conjunction with the financial statement review, and sign-off and date the checklist on the date in which the review is completed. In doing so, it will remove any ambiguities surrounding the timeliness of the review from the process.

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

e. *Financial Checklist Implementation and Preparation*

Condition:
During our review of the supporting documents for the FMFS Financial Statement Checklist (Appendix B) within the Standard Operating Procedures (SOP), we noted 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.

In addition, we noted that an FMFS Accountant performed and completed the checklist as of 8/1/11. As such, the FMFS Accountant signed off as completing the reviews of the two reconciliations that were performed by the FMFS Intern. The FMFS Deputy Director signed off on the checklist as being reviewed as of 8/1/11.

Cause:
FMFS did not have the proper controls in place to monitor the financial review work being performed by FMFS Accountants and Interns. FMFS did not follow the internal guidance of the Financial Statement SOP and checklist for preparation and review procedures.

Effect:
The preparation of the checklist and supporting documents by an FMFS intern can lead to mistakes in the review over the financial statements. An experienced FMFS Accountant, as noted in the SOP, should be performing this step in the monitoring and oversight as well as FMFS Management for the Financial Statement review. We noted that a lack of internal controls over the review of the financial statements can result in a weakness of internal controls over the financial statements. Such a weakness in internal control can contribute to possible misstatements in the financial statement amounts, which can lead to significant deficiencies and/or material weaknesses or fraudulent reporting of the Commission's financial information.

Criteria:
OMB Circular A-123, *Management's Responsibility for Internal Control* states that "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."

Recommendation:
9. We recommend that the FMFS division strengthens controls over financial reporting in relation to management oversight and review of the financial statements. Management should explicitly follow its internally developed SOP for the proper review of the Financial Statements and supporting schedules.
10. We recommend that in the future, only an experienced FMFS Accountant prepare and complete all items relating to the Financial Reporting checklist due to the importance of proper monitoring and oversight by FMFS Accountants and Management.

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

f. Timely Review of the SF-133 as of 6/30/11

Condition:
During our review of the 6/30/11 Financial Statements, we noted that 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. The statements were then submitted to OMB on 7/22/11 for the Commissions quarterly financial reporting. In addition, the SF-133 was signed by the FMFS Director on 7/27/2011, after the statements were submitted to OMB.

We also noted that the SF-133 Checklist was created for the review and oversight over the preparation of the SF-133 and the accompanying Statement of Budgetary Resources, as prepared by FMFS' accounting service provider, Enterprise Service Center (ESC). However, when the SF-133 checklist is completed after the financial statements have been submitted to OMB, a timely and proper review is not being completed and/or documented by FMFS Management.

Following the issuance of this finding to Management on 8/22/2011, FMFS management was able to provide additional documentation to support the review of the SF-133 prior to the submission date into the Federal Agencies Centralized Trial Balance System (FACTS) II. This additional support was provided on 8/26/2011, and included various emails between FMFS and ESC. Further, FMFS Management indicated that the checklist provided and the completion date annotated signified when the checklist was prepared and not when the actual review was completed. ESC confirmed via email the transmission of the SF-133 to FACTS II on 7/15/2011. In addition to the support provided, FMFS management indicated on 8/29/2011 that the SF-133 Checklist was part of a *draft* SOP, which was being "tested" for the period and not finalized. Therefore, FMFS management suggested that the established Checklist had little relevance and was not required to be completed in a timely manner, if other support was provided to prove that the review was conducted timely.

Cause:
We noted that FMFS must provide their financial statements to OMB, within 21 calendar days of the quarter end, as required by Circular A-136. Under this requirement, FMFS' 3rd quarter statements were due to OMB on 7/22/2011 (to account for the 7/4/2011 Federal holiday). As such, we noted that FMFS and ESC closed the 6/30/2011 accounting period close to the deadline in which the financial statements were due to OMB. Such a late closing of the accounting period caused a chain reaction and delayed FMFS's performance of monitoring, analysis, and oversight over the financial information provided by ESC.

Further, we noted that in order for FMFS Accountants and Management to perform a thorough review of the financial statements, the SF-133 checklist was created by FMFS Management to facilitate oversight and monitoring. However, FMFS was not using the checklist to review the financial statements before they were submitted to OMB.

FMFS Management indicated that the FMFS Accountant responsible for performing the SF-133 review and completing the checklist was out on sick leave. Therefore, the Accountant was unable to complete the checklist at the time the review was performed, and Management indicated that other "*priorities*" prevented them from completing the Checklist themselves.

Effect:
The incomplete review of the SF-133 and accompanying financial statements results in a weakness of internal controls over the financial statements. Such a weakness in internal

control can contribute to possible misstatements in the financial statement amounts, which require timely and unforeseen adjustments to financial statements, after the fact. Further, these misstatements can lead to significant deficiencies and/or material weaknesses or fraudulent reporting of the Commission's financial information.

Criteria:
Statement of Federal Financial Accounting Concepts Number 1: *Objectives of Federal Financial Reporting* states, "Financial Reporting is the means of communication with those who use financial information. For this communication to be effective, information in financial reports must have these basic characteristics: understandability, reliability, relevance, timeliness, consistency, and comparability".

OMB Circular A-123, *Management's Responsibility for Internal Control* states that "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."

OMB Circular A-136, *Financial Reporting Requirements*, this Circular establishes a central point of reference for all Federal financial reporting guidance for Executive Branch departments, agencies, and entities required to submit audited financial statements, interim financial statements, and Performance and Accountability Reports (PAR) under the Chief Financial Officers Act of 1990 ("CFO Act") (Pub. L. No. 101 – 576), the Accountability of Tax Dollars Act of 2002 ("ATDA") (Pub. L. No. 107 – 289), and Annual Management Reports under the Government Corporations Control Act (31 U.S.C. § 9101 et seq.). Specifically, A-136 states "Agencies will submit unaudited interim financial statements to OMB 21 calendar days after the end of each of the first three quarters of the fiscal year. This Circular makes this a permanent quarterly requirement. Agencies participating in the pilot program get 21 business days".

Recommendation:
11. We recommend that the FMFS division strengthens controls over financial reporting in relation to management oversight and review of the financial statements. Although management has an SOP and checklist established in the financial reporting process area, the review was not performed in accordance with the SOP. FMFS Accountants and Management should be reviewing all financial statements and accompanying information in detail before they are submitted to OMB to ensure completeness and accuracy of the information provided on behalf of the Commission. This may require FMFS Management to take a more active approach in financial reporting and working more closely with ESC to ensure information needed to make external reporting requirements is provided from ESC in timely fashion to FMFS.
12. Based on the discussion with FMPB and FMFS management on 8/29/2011 and the additional support received, we recognize that the review of the financial statements as of 6/30/2011 did occur on a timely basis, but not in accordance with the SOP and checklist used during the period-end; nor was the review documented properly. While there is

disagreement, between the OIG and FMFS Management on whether the SOP checklist should be evaluated as part of the audit process, FMFS did utilize the checklist as part of the financial reporting review of the financial statements for the period. Further, the OIG considers the checklist to function as a key internal control for period. As such, the OIG noted that Financial Statement Review Checklist should function as a "checklist", which under normal circumstances would be completed while the review was being conducted to ensure all steps were performed completely and accurately. Thus, going forward we recommend that FMFS utilize the checklist in conjunction with the financial statement review, and sign-off and date the checklist on the date in which the review is completed. In doing so, it will remove any ambiguities surrounding the timeliness of the review from the process.

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

Fund Balance with Treasury (FBWT)

(2) Improvement is needed in the controls dealing with the Fund Balance with Treasury

a. Implementation of the FBWT Oversight and Review Process

Condition:
We obtained 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.

In addition, to the untimely review, we noted that the FMFS accountant did not tie out the "unavailable receipt" amounts under the GWA column on the reconciliation. Thus, prompting the OIG to perform a review of the reconciliation. Upon OIG review of the reconciliation, we noted there were material variances between the GWA and trial balance accounts. FMFS did not follow-up with ESC regarding these variances until 6/24/11.

We noted during our walkthrough that FMFS had not performed a review of the SF 224 to Trial Balance (or General Ledger) Reconciliation to ensure the accuracy of the ESC prepared SF-224. We noted that in the prior year, ESC had provided a SF 224 to General Ledger Reconciliation to FMFS, but this reconciliation has not been used in the current year for oversight.

We further noted that a "post review" was performed by management over the SF-224 once it was already submitted to Treasury by ESC. If the SF-224 to General Ledger reconciliation was performed before the submission to Treasury, FMFS management would be better able to ensure the accuracy of the SF-224 that was submitted to Treasury.

Cause:
The Division of Financial Management implemented a new accounting system in FY 2010. This created more significant changes in the internal control structure than originally anticipated by management in the areas of transactional processing and financial reporting. Further, as result of the FY 2010 audit, FMFS decided to shift all transactional processing to ESC as of 5/2/11. This created another shift in the internal control structure due to FMFS' need to establish monitoring, oversight, and analysis internal controls over ESC's new duties. Consequently, FMFS management has not been able to fully implement a firm internal control structure. The challenges facing FMFS in this area include both dealing with other conflicting priorities created by the transition of transactional processing to ESC and simultaneously developing a new internal control structure. These conflicting priorities include the new learning curve associated with the transition, turnover of key personnel, and the training of new and current FMFS personnel to a new internal control structure. All of which played a role in the creation of the above described weaknesses in the internal control structure.

Effect:
The weaknesses identified in the internal controls over FBWT could contribute to possible significant misstatements of the reported financial statement amounts, which could lead to significant deficiencies and/ or material weaknesses or fraudulent reporting of the Commission's financial information.

Criteria:
OMB Circular A-123, *Management's Responsibility for Internal Control,* states that "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."

OMB Circular A-136, *Financial Reporting Requirements*, this Circular establishes a central point of reference for all Federal financial reporting guidance for Executive Branch departments, agencies, and entities required to submit audited financial statements, interim financial statements, and Performance and Accountability Reports (PAR) under the Chief Financial Officers Act of 1990 ("CFO Act") (Pub. L. No. 101 – 576), the Accountability of Tax Dollars Act of 2002 ("ATDA") (Pub. L. No. 107 – 289), and Annual Management Reports under the Government Corporations Control Act (31 U.S.C. § 9101 et seq.).

Treasury Financial Manual (TFM), Part 2 Chapter 5100, *"Reconciling Fund Balance with Treasury Accounts," Section 5125- Background*: Reconciling FBWT accounts is a key internal control process. It assures the reliability of the Government's receipt and disbursement data reported by agencies. Therefore, agencies must perform timely reconciliations and implement effective and efficient reconciliation processes. TFM supplement, "Fund Balance with Treasury Reconciliation Procedures" (available on the Internet, see Contacts page), provides more detailed instructions on the various types of reconciliation. Agencies should use these procedures as a guide in the reconciliation process. The requirements for reconciling FBWT accounts entail the following components:

- Reconciliation of an agency's reported deposit/debit voucher transactions with Treasury's FMS 6652: Statement of Differences Deposit Transactions.
- Reconciliation of an agency's reported disbursement and OPAC transactions with Treasury's FMS 6652: Statement of Differences Disbursing Transactions.
- Reconciliation by Non-Treasury Disbursing Offices (NTDOs) and RFCs of check issue magnetic tape data with the check issue amount reported on the SOA reports.
- Reconciliation of an agency's SGL 1010 accounts to Treasury's FMS 6653 and 6655.
- Agencies should document their reconciliations and make them available to agency management, auditors and Treasury if requested. Agencies also should ensure that all adjustments are researched and traceable to supporting documents.

Recommendation:
13. We recommend that FMFS establish an explicit schedule establishing the timeframe in which the FBWT review should be completed by the Financial Reporting Accountant. By establishing a schedule, it will assist in ensuring that the Accountant performs the review in a timely manner, so that FMFS management will have ample time for supervisory review and follow-up, if needed. This schedule should also establish when follow-up should occur with ESC, to ensure issues are addressed and resolved in a timely manner.
14. We recommend that FMFS incorporate the SF 224 to Trial Balance Reconciliation and the Statement of Differences monitoring reports from ESC into this process area. A detailed review should be conducted over these reports, with the Financial Reporting Accountant performing the initial review and FMFS management providing the supervisorial review of the Accountant's review.
15. We recommend that the management review of the SF-224 to General Ledger reconciliation be performed before the submission of the SF-224 to Treasury.

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

b. FBWT Monthly Reconciliations

Condition:
We obtained 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.

We obtained the GWA to Trial Balance Reconciliation prepared by ESC as of 7/31/11 from FMFS and noted that the variances had decreased to $2,140,476. However, we noted that the variances still spanned from the June 2010 period through the current period.

When we obtained the 3/31/11 and 6/30/11 GWA to Trial Balance reconciliations, we noted that there were only two variances of $1.64 that netted out. Upon inquiry to FMFS about the variances appearing on non quarter-end months and them not appearing on quarter-end months we obtained the following explanation: "*ESC completes a journal entry at the end of each quarter to correct cash. This entry is reversed the following month. Per ESC, all variances must be cleared quarterly with an ADI to pass FACTS II edit checks. The one variance that is left $1.64 nets out between two accounts that are not required to report in FACTS II as they are miscellaneous receipt funds and do not include budgetary accounting*".

With further inquiry with ESC about the variances, we noted the following statement was provided by ESC from an FMFS Accountant: "*The State Department reconciling items represent unrecorded disbursements (unrecorded in the Delphi system) from State Department. ESC needs documentation from the State Department before these disbursements can be recorded in the Delphi system. Per ESC, normally it takes about three months to obtain documentation from State Department for reconciling items more than three months old.*" The OIG contacted the Director of the Cash Accounting Division at the Department of Treasury's Financial Management Service (FMS), and noted the Commission had a "Red Score" indicating that they had reconciling items that were over the two-month threshold for appropriate reporting, per FMS guidance. In order to have a "Red Score", CPSC had to have reconciling differences over six months from the current monthly period.

Cause:
The Division of Financial Management implemented a new accounting system in FY 2010. This created more significant changes in the internal control structure than originally anticipated by management in the areas of transactional processing and financial reporting. Further, as result of the FY 2010 audit, FMFS decided to shift all transactional processing to ESC as of 5/2/11. This created another shift in the internal control structure due to FMFS' need to establish monitoring, oversight, and analysis internal controls over ESC's new duties. Consequently, FMFS management has not been able to fully implement a firm internal control structure. The challenges facing FMFS in this area including both dealing with other conflicting priorities created by the transition of transactional processing to ESC and simultaneously developing a new internal control structure. These conflicting priorities include the new learning curve associated with the transition, turnover of key personnel, and the training of new and current FMFS personnel to a new internal control structure. All of which played a role in the creation of the above described weaknesses in the internal control and compliance with laws and

regulations structure.

Effect:
The weaknesses identified in the internal controls and compliance with laws and regulations over FBWT could contribute to possible significant misstatements of the reported financial statement amounts, which could lead to significant deficiencies and/ or material weaknesses or fraudulent reporting of the Commission's financial information.

Criteria:
OMB Circular A-123, *Management's Responsibility for Internal Control,* states that "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."

Government Accountability Office (GAO) *Standards for Internal Control in the Federal Government*, dated November 1999, "defines the minimum level of quality of acceptable internal controls in government and provided a basis against, which internal controls is to be evaluated". The five standards of internal control include: control environment, risk assessments, control activities, information and communication, and monitoring. Specifically, internal control activities help ensure that management's directives are carried out. The control activities should be effective and efficient in accomplishing the agency's control objectives. Some examples of control activities include appropriate documentation of transactions and internal control, accurately and timely recording of transaction and events, reviews by management at the functional or activity level, etc.

OMB Circular A-136, *Financial Reporting Requirements*, this Circular establishes a central point of reference for all Federal financial reporting guidance for Executive Branch departments, agencies, and entities required to submit audited financial statements, interim financial statements, and Performance and Accountability Reports (PAR) under the Chief Financial Officers Act of 1990 ("CFO Act") (Pub. L. No. 101 – 576), the Accountability of Tax Dollars Act of 2002 ("ATDA") (Pub. L. No. 107 – 289), and Annual Management Reports under the Government Corporations Control Act (31 U.S.C. § 9101 et seq.).

Treasury Financial Manual (TFM), Volume I, Part 2 – Chapter 5100, *Reconciling Fund Balance with Treasury (FBwT) Accounts,* requires the monthly reconciliation of the FBwT. As such, reconciling FBwT accounts is key internal control process. It assures the reliability of the Government receipt and disbursement data report by agencies. Part of the reconciliation process includes preparing and submitting a SF-224 – Statement of Transactions.

Recommendation:
16. We recommend that FMFS work more actively with ESC to gain an understanding of the differences in the GWA to Trial Balance monthly reconciliations, and to continue to resolve the differences as of 9/30/11.
17. We further recommend that the internal controls over reviewing the GWA to Trial Balance reconciliation be strengthened to ensure that FMFS has a full understanding of the nature and timing of the differences. We recommend that all future differences be cleared timely and in accordance with the FMS guidance that differences should not exceed a two-month period.

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

c. *SF-224 – Statement of Transactions Review as of 3/31/11*

Condition:
We noted that 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.

Cause:
The Division of Financial Management fully outsourced all transactional based accounting to the Enterprise Service Center (ESC) effective 5/2/11. However, ESC was also involved in preparing specific financial reports and standard forms on behalf of the Commission effective December 2010 when the transition to the Delphi accounting system through ESC took place. We noted that ESC accountants took on the role of preparing the SF-224. However, FMFS Management was/is still responsible for the oversight and review of all accounting information provided by ESC on behalf of the Commission.

Effect:
The weaknesses identified in the internal controls over FBwT and supporting reported information can contribute to possible significant misstatements of the reported financial statement amounts, which can lead to significant deficiencies and/ or material weaknesses or fraudulent reporting of the Commission's financial information.

Criteria:
OMB Circular A-123, *Management's Responsibility for Internal Control* states that "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."

Government Accountability Office (GAO) *Standards for Internal Control in the Federal Government*, dated November 1999 "defines the minimum level of quality of acceptable internal controls in government and provided a basis against, which internal controls is to be evaluated". The five standards of internal control include: control environment, risk assessments, control activities, information and communication, and monitoring. Specifically, internal control activities help ensure that management's directives are carried out. The control activities should be effective and efficient in accomplishing the agency's control objectives. Some examples of control activities include appropriate documentation of transactions and internal control, accurately and timely recording of transaction and events, reviews by management at the functional or activity level, etc.

OMB Circular A-136, *Financial Reporting Requirements*, this Circular establishes a central point of reference for all Federal financial reporting guidance for Executive Branch departments, agencies, and entities required to submit audited financial statements, interim financial statements, and Performance and Accountability Reports (PAR) under the Chief Financial Officers Act of 1990 ("CFO Act") (Pub. L. No. 101 – 576), the Accountability of Tax Dollars Act of 2002 ("ATDA") (Pub. L. No. 107 – 289), and Annual Management Reports under the Government Corporations Control Act (31 U.S.C. § 9101 et seq.).

Treasury Financial Manual (TFM), Volume I, Part 2 – Chapter 5100, *Reconciling Fund Balance with Treasury (FBwT) Accounts,* requires the monthly reconciliation of the FBwT. As such, reconciling FBwT accounts is key internal control process. It assures the reliability of the Government receipt and disbursement data report by agencies. Part of the reconciliation process includes preparing and submitting a SF-224 – Statement of Transactions.

Recommendation:
18. We recommend that FMFS strengthens its controls over the financial oversight in regards to ESC transactional accounting as well as reporting of information to various Federal agencies on behalf of the Commission.
19. We recommend that FMFS Management perform a comprehensive and timely review over the SF-224 before it is submitted to the U.S. Treasury in order to review the integrity of the information being reported on behalf of the Commission.

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

Property, Plant and Equipment (PPE)

(3) Improvement is needed with controls over Property, Plant, and Equipment

a. Depreciation Expense Calculation and Journal Voucher Review

Condition:
Upon review of depreciation expense, we noted that based on FMFS calculations the amount for depreciation expense as of 6/30/11 was $167,413.21. We further noted that the excess depreciation over disposed assets as of 6/30/11 was $159,179.15. Therefore, 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. Upon inquiry with ESC, we noted that the entry also included an adjustment for accumulated depreciation for an amount as of 9/30/10. We noted that the accumulated depreciation adjustment was combined with the current depreciation expense as of 6/30/11 as follows:

Gl Account	Entered Dr	Entered Cr	Period Name
67100000	$572,058.57		JUN-11_FY-11
67100000		$563,824.51	JUN-11_FY-11
67100000	$16,018.98		JUN-11_FY-11
67100000	$247,246.76		MAR-11_FY-11
67100000	$1,095.19		MAR-11_FY-11
67100000	$74,899.87		MAR-11_FY-11
67100000	$840.00		MAR-11_FY-11
67100000	$7,532.80		MAR-11_FY-11
67100000	$15,920.57		MAR-11_FY-11
67100000	$2,399.24		MAR-11_FY-11
67100000	$6,321.64		MAR-11_FY-11
67100000	$8,030.15		MAR-11_FY-11
67100000	$2,987.16		MAR-11_FY-11
67100000	$3,752.82		MAR-11_FY-11
67100000	$563,824.51		SEP-10_FY-10

In the detail above provided by ESC, we noted that the debit entry for $563k dated "SEP-10_FY-10" was for an entry that was requested by FMFS as of 9/30/10. We noted that in the support provided by FMFS for this entry, it noted that the Delphi system was not agreeing in total to the CPSC Property Management System (PMS). In order to have the balance agree between the two systems for financial statement reporting, CPSC requested that an adjustment in the amount of $563k be made by ESC. However, upon OIG request to FMFS for the asset detail that made up the $563k reconciliation to the PMS system, we noted that this information could not be provided.

In further discussion with ESC to determine the information that could be provided to support the $563k adjustment, we noted that PPE is recorded on a high level as the details of the PPE are maintained in the CPSC PMS. When details of the PPE change within PMS, FMFS provides information of those changes to ESC that must be recorded in Delphi via JV. Therefore, ESC does not have details of PPE and must book entries based upon guidance and approval from FMFS. However, we noted inconsistencies in the level of detail provided to ESC to record the $563k adjustment as of 9/30/10; whereas as of 3/31/11, FMFS began providing more detail to ESC to record depreciation expense, which included a listing of disposed assets and their respective accumulated depreciation, which directly agrees to the journal entry recorded. ESC further concluded that the reversal of the $563k was necessary, as it included depreciation and amortization, thus if not reversed the amount for 6/30/11 would have not been correct.

We then noted that all the 'MAR-11_FY-11" entries above agreed to the test work the OIG performed as of 3/31/11. We then took the difference between the debit for the $572k and the credit for $563k for the period "JUN-11_FY11" above and noted the difference was the $8,234.06. As noted above, this was the actual depreciation expense that occurred as of 6/30/11. Therefore, we believe the amount expensed for depreciation in the amount of $8k is reasonable; however, the reversal of the initial amount of $563k is not properly supported in order to reconcile the entire entry that was recorded.

Cause:
We noted that CPSC is the custodian for the PMS and reviews all the details for the assets as performed in the Fixed Asset reconciliation. CPSC then sends ESC the entries to be made to update Delphi accordingly based on the activity in the PMS System. We noted that at the end of FY 2010, ESC had created an Asset Fund to hold the detail of all CPSC's current assets. However; as of 9/30/10, the asset fund did not equal the PMS system; therefore, 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 was unsupported and when the entry was reversed as of 6/30/11, there was not proper documentation to support the accuracy and validity of the entire depreciation entry.

We noted that FMFS management reviewed and approved the entry when provided to ESC, and for ESC to post in Delphi, however, they cannot provide an explanation for what assets are included in the amount of $563k. Therefore, the proper understanding of the entry before posting is not evident.

Effect:
The weaknesses identified in the internal controls over management review of Property, Plant, and Equipment financial balances can contribute to possible significant misstatements of the reported financial statement amounts, which can lead to significant deficiencies and/ or material weaknesses or fraudulent reporting of the Commission's financial information.

Criteria:
OMB Circular A-123, *Management's Responsibility for Internal Control* states that "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."

Government Accountability Office (GAO) *Standards for Internal Control in the Federal Government*, dated November 1999 "defines the minimum level of quality of acceptable internal controls in government and provided a basis against which internal controls is to be evaluated". The five standards of internal control include: control environment, risk assessments, control activities, information and communication, and monitoring. Specifically, internal control activities help ensure that management's directives are carried out. The control activities should be effective and efficient in accomplishing the agency's control objectives. Some examples of control activities include appropriate documentation of transactions and internal control, accurately and timely recording of transaction and events, reviews by management at the functional or activity level, etc.

OMB Circular A-136, *Financial Reporting Requirements*, this Circular establishes a central point of reference for all Federal financial reporting guidance for Executive Branch departments, agencies, and entities required to submit audited financial statements, interim financial statements, and Performance and Accountability Reports (PAR) under the Chief Financial Officers Act of 1990 ("CFO Act") (Pub. L. No. 101 – 576), the Accountability of Tax Dollars Act of 2002 ("ATDA") (Pub. L. No. 107 – 289), and Annual Management Reports under the Government Corporations Control Act (31 U.S.C. § 9101 et seq.).

Recommendation:
20. We recommend that in the future FMFS performs detailed transactional level reconciliations over each accounting period in which they propose that ESC make adjustments to CPSC fixed assets. This will help to support the accuracy of the recorded amounts.
21. We further recommend that in the future management performs a detailed review on the amounts that are calculated and proposed for journal entries related to fixed assets. This detailed review may require FMFS management and staff to question these entries to ensure all entries are proper and supported.

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

b. *Timely Review and Approval of the Fixed Asset Reconciliation as of 6/30/2011*

Condition:
During our review of Property, Plant, and Equipment as of 6/30/2011, we found that FMFS had prepared a Journal Voucher (JV) to calculate the depreciation expense by asset year as of 6/30/11, prior to the completion of the Fixed Asset Reconciliation. The CPSC entry prepared and posted was reviewed by the FMFS Director on 7/8/11.

We obtained the JV for depreciation expense as of 6/30/11 that was prepared by ESC and noted that the FMFS Director approved it for posting on 7/19/11. We further noted that the 6/30/11 CPSC Financial Statements were submitted to OMB on 7/22/11.

Upon review of the Fixed Asset Reconciliation, we noted that it was prepared by the FMFS accountant and reviewed by the FMFS Director as of 7/28/11. Based on the review/ approval date of 7/28/11, we noted that the evidenced review was performed after the JV's were prepared and posted in Delphi by ESC, as well as after the 6/30/11 Financial Statements were submitted to OMB.

We further noted that the Provided By Client (PBC) date for the Fixed Asset Reconciliation as of 6/30/11 requested by the OIG was due on 7/28/11, and FMFS signed the reconciliation as of the due date, which evidenced that the timely management review over the control process was not effective.

Cause:
We noted that CPSC is the custodian of the Property management System (PMS) and FMFS monitors the activity in the system in order to reconcile to the Delphi Asset Fund each reporting period. The main component used to identify the changes in activity between PMS and Delphi is the Fixed Asset Reconciliation. However, we noted through clarification of the Fixed Asset reconciliation process, that reconciliation is the last step in the process. As such, JVs regarding depreciation expense, asset additions, and disposals had already been recorded; thus, FMFS is "confident" that the balances will agree. We note that the current process of reviewing PPE defeats the purpose of performing the reconciliation. When FMFS has already posted the JVs to adjust the balance, FMFS is now reconciling to the JVs rather than vice versa.

Based on this process, we noted that the proper reconciliation was not performed in a sufficiently timely manner to determine if the amounts calculated for depreciation, including additions and disposals were calculated properly before the JV was posted and the Financial Statements were submitted to OMB.

Effect:
The weaknesses identified in the internal controls over management review of Property, Plant, and Equipment financial balances can contribute to possible significant misstatements of the reported financial statement amounts, which can lead to significant deficiencies and/ or material weaknesses or fraudulent reporting of the Commission's financial information.

Criteria:
OMB Circular A-123, *Management's Responsibility for Internal Control* states that "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."

Government Accountability Office (GAO) *Standards for Internal Control in the Federal Government*, dated November 1999 "defines the minimum level of quality of acceptable internal controls in government and provided a basis against, which internal controls is to be evaluated". The five standards of internal control include: control environment, risk assessments, control activities, information and communication, and monitoring.

Specifically, internal control activities help ensure that management's directives are carried out. The control activities should be effective and efficient in accomplishing the agency's control objectives. Some examples of control activities include appropriate documentation of transactions and internal control, accurately and timely recording of transaction and events, reviews by management at the functional or activity level, etc.

OMB Circular A-136, *Financial Reporting Requirements*, establishes a central point of reference for all Federal financial reporting guidance for Executive Branch departments, agencies, and entities required to submit audited financial statements, interim financial statements, and Performance and Accountability Reports (PAR) under the Chief Financial Officers Act of 1990 ("CFO Act") (Pub. L. No. 101 – 576), the Accountability of Tax Dollars Act of 2002 ("ATDA") (Pub. L. No. 107 – 289), and Annual Management Reports under the Government Corporations Control Act (31 U.S.C. § 9101 et seq.).

Recommendation:
22. We recommend that FMFS revise its current process of reconciling PPE to ensure that the reconciliation is performed before any entries are posted to adjust the PPE balance. Doing so will allow FMFS staff and management to be able to truly assess the differences in balances. This will significantly reduce the risk of misstatement. Under the current process, errors are generally not found until after entries have been posted to adjust the PPE balance. The recommended system will significantly reduce the time and effort currently being put into reversing entries (if needed) that are posted prior to the reconciliation of PPE.
23. Also, we recommend, that FMFS change its process to ensure that JVs support the reconciliation performed. Thus, management should not approve entries for posting until the reconciliation has been completed and prior to the submission of financial statements to meet quarterly reporting requirements.

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

c. *Property, Plant, and Equipment Balance as of 9/30/11*

Condition:
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.

When we asked FMFS management about the overstatement, we found that ESC had proposed and FMFS approved an adjustment at year-end to bring the Delphi CPSC Asset Fund balance into agreement with the CPSC PMS balance. Before the posting of this entry, the Delphi balance was $3,117,207. We noted that the balance had decreased significantly as of 6/30/11 when it was $6,183,466. The decrease was caused by ESC reversing the entries in the CPSC Asset Fund to try and correct the details at the PO Module level. However, we noted via the emails provided, that at year-end ESC did not have the time to go back and correct the entries. Therefore, the proposed entry (CPSC JV# 176) in the amount of $6,158,875 was posted to make the Delphi CPSC Asset Fund balance agree to the PMS balance. However, we noted that ESC had not taken into account the capitalized property that was already recorded in other CPSC funds to the SGL 1750 prior to posting the entry to the CPSC Asset Fund.

Thus, to correct this issue, we noted that ESC had to post another entry to remove the assets in SGL 1750 from various other CPSC funds. As such, we obtained JV#177 for $7,068,405.51 and noted that $6,785,554 of assets for other CPSC funds was removed from SGL 1750.

Untimely Additions:
We further noted that there was a total of $3,106,031 in equipment additions made to the Fixed Asset listing in PMS. These additions were made across three fiscal years and break down as follows:

FY 2011: We noted that the amount at 6/30/11 was $70,847 and the amount at 9/30/11 was $1,045,996 resulting in an increase of $975,150;

FY 2010: We noted that the FY 2010 assets amounts at 6/30/11 were $701,454.06 and the amount at 9/30/11 was $2,442,089 resulting in an increase of $1,740,635.

FY 2009: We noted that the FY 2009 assets amounts at 6/30/11 were $1,106,759 and the amount at 9/30/11 was $1,502,256 resulting in an increase of $395,497

We noted that although the FY 2011 additions were recorded properly in the current fiscal year, FMFS was not reviewing the purchase orders expensed for property in a timely and efficient manner within Delphi. We noted that the FY 2011 additions were all added at year-end with the exception of one previously recorded asset, but they were purchased all throughout FY 2011.

We further noted that the additions in FY 2010 and FY 2009 should have been recorded in prior periods.

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.

When we inquired about the overstatement to FMFS management, we found that ESC had proposed and FMFS approved an adjustment at year-end to account for the IUS in Delphi balance showing an asset amount of $682,408. We noted that the balance had decreased significantly as of 6/30/11 when it was $965,260. The decrease was caused by

ESC reversing the entries in the CPSC Asset Fund to try and correct the details at the PO Module level. However, we noted that via the emails provided at year-end, ESC did not have the time to go back and correct the entries. Therefore, the proposed entry (CPSC JV #176) in the amount of $382,654.24 was posted to Delphi to bring it into agreement with the accounting support provided. As previously noted, with SGL 1750, ESC did not account for the SGL 1830 balances in other CPSC funds, prior to posting the entry to the CPSC Asset Fund.

We noted that in order to correct this issue, ESC had to post another entry to remove assets from SGL 1830 from other CPSC funds. Thus, we obtained CPSC JV#177 and noted that $282,851 was removed from SGL 1830.

Untimely Additions:
We further noted that there were additions of $99,802 to IUS that were made at year-end. These additions were made across three fiscal years and break down as follows:

FY 2011: We noted that an addition as of 12/27/10 was added in the amount of $20,320, and one from 8/8/11 in the amount of $32,107.

FY 2010: We noted an addition from 6/24/10 in the amount of $14,375 was added.

FY 2009: We noted an addition from 11/2/09 was added in the amount of 33,000.

We noted that although the FY 2011 additions were recorded properly in the current fiscal year, FMFS was not reviewing the PO's expensed for property in a timely and efficient manner within Delphi.

We further noted that the additions in FY 2010 and FY 2009 should have been recorded in prior periods.

Cause:
SGL 1750
FMFS management did not properly review the CPSC Funds to determine the amount in assets that had previously been recorded to the SGL 1750. Had a proper review been performed, they would have noted that the balance in SGL 1750 was already $6,785,554.

SGL 1830
FMFS management did not properly review the CPSC Funds to determine that amount of assets that had previously been recorded to the SGL 1830. Had a proper review been performed they would have noted that the balance in that fund was already $282,851.

Additions
As previously noted in Audit Finding 15 – *Timely Review of Fixed Assets Reconciliation as of 6/30/2011*, FMFS does not appropriately perform their fixed asset reconciliation, as JVs related to CPSC fixed assets are already posted to their respective SGL accounts before the fixed reconciliation is completed and reviewed. As such, FMFS is not

performing complete and/or timely reviews over capitalized property or IUS. Therefore, the capitalized items (including IUS) are not properly tracked or monitored by FMFS. FMFS has been aware of the need to reclassify capitalized property from expenses since the implementation of Delphi in FY 2010. Based on the continuous nature of the issues with fixed assets throughout the fiscal year, it appears that FMFS management is not properly monitoring the internal controls that FMFS staff should be performing to move the expensed capitalized property into the appropriate SGLs.

Effect:
The weaknesses identified in the internal controls over management review of Property, Plant, and Equipment financial balances can contribute to possible significant misstatements of the reported financial statement amounts, which can lead to significant deficiencies and/ or material weaknesses or fraudulent reporting of the Commission's financial information.

Criteria:
OMB Circular A-123, *Management's Responsibility for Internal Control* states that "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."

Government Accountability Office (GAO) *Standards for Internal Control in the Federal Government*, dated November 1999 "defines the minimum level of quality of acceptable internal controls in government and provided a basis against, which internal controls is to be evaluated". The five standards of internal control include: control environment, risk assessments, control activities, information and communication, and monitoring. Specifically, internal control activities help ensure that management's directives are carried out. The control activities should be effective and efficient in accomplishing the agency's control objectives. Some examples of control activities include appropriate documentation of transactions and internal control, accurately and timely recording of transaction and events, reviews by management at the functional or activity level, etc.

OMB Circular A-136, *Financial Reporting Requirements*, this Circular establishes a central point of reference for all Federal financial reporting guidance for Executive Branch departments, agencies, and entities required to submit audited financial statements, interim financial statements, and Performance and Accountability Reports (PAR) under the Chief Financial Officers Act of 1990 ("CFO Act") (Pub. L. No. 101 –

576), the Accountability of Tax Dollars Act of 2002 ("ATDA") (Pub. L. No. 107 – 289), and Annual Management Reports under the Government Corporations Control Act (31 U.S.C. § 9101 et seq.).

Recommendation:
24. We recommend that FMFS management improves performance over monitoring and reviewing ESC transactions prior to approving journal vouchers proposed by ESC. If management had performed a more detailed review over the balance, they would have found that the amounts recorded in the CPSC Funds that should have been considered prior to posting of such a material year-end journal entry.
25. We further recommend that FMFS performs more timely reviews over fixed assets that are entered as expenses and then need to be reclassed into the fixed asset SGL's. These reviews should be incorporated into the quarterly fixed asset reconciliation or performed monthly, in order to ensure that assets are properly recorded, at the time the asset is placed into service. Further, the controls over review of this accounting data should also be strengthened by FMFS management to avoid recording all additions at year end or additions that took place in the prior year.

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

Earned Revenue

(4) Improvement is needed regarding controls to ensure earned revenue is completely and accurately stated.

a. *Understatement of Earned Revenue as of 6/30/2011*

Condition:
We noted that 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). Prior to our 6/30/2011 review, we noted during our preliminary review of the CPSC reported balances as of 3/31/11, the CPSC reported a change in accounting policy, where revenues from IAAs are now matched with the related expenses. The new accounting treatment contrasts to the prior year, where reimbursable revenue was recorded as earned upon the receipt of monies from the related IAA. As a result of the change in accounting treatment for reimbursable revenue, we noted a new balance sheet amount of $2,461,242 (SGL 2310), which was recorded in the Other Liabilities line item. This amount comes from IAAs that have been collected and "deferred" until FMFS and ESC can match revenues with expenses.

Following our inquiry regarding the 6/30/2011 balance, FMFS management stated that further follow-up with ESC was needed. After additional follow-up with ESC, we met with FMFS and FMPB officials on 10/6/11 to attempt to fully understand the circumstances regarding the 6/30/2011 earned revenue balance and to clarify the procedures used to record earned revenue for IAAs. We noted that the balance was understated as of 6/30/11 because FMFS did not instruct ESC to record the revenue earned from program expenditures. The funds provided in advance from the IAAs were being obligated and adjusted based on usage of funds. However, the expenditures incurred were not being recognized to match with the revenue previously collected. We noted, per our discussion, that the balance would be properly adjusted as of 9/30/11 via journal entry, as FMFS and ESC were still analyzing the balance for correction.

Cause:
We noted that FMFS and FMPB did not have the proper internal control procedures in place for reviewing the revenue balance and the financial statement balances. We noted that FMFS and FMPB did not have a Standard Operating Procedures (SOP) in place until the July/August 2011 timeframe; well after the change in accounting treatment of earned revenue had been made. Further, based on the nature of the transactions and the knowledge of advanced reimbursements being received by CPSC in the amount of $2,480,036 as of 6/30/11, FMFS did not properly perform an analysis over the earned revenue balance to determine the completeness and accuracy of the balance to ensure that it was reflected properly in the financial statements.

Effect:
The weakness identified in internal control contributed to a gross understatement in earned revenue from reimbursable agreements as of 6/30/11. This has lead to improper reporting of the financial statements and inconsistent information being reported to OMB.

Criteria:
Statement of Federal Financial Accounting Standards (SFFAS) 7: *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting* states that "revenue from exchange transactions should be recognized when goods or services are provided to the public or another Government entity at a price." Further, SFFAS 7 states "when advance fees or payments are received, such as for large-scale, long-term projects, revenue should not be recognized until costs are incurred from providing the goods and services (regardless of whether the fee or payment is refundable). An increase in cash and an increase in liabilities, such as "unearned revenue," should be recorded when the cash is received. "Unearned revenue" should also be recorded if an agency requests advances or progress payments prior to the receipt of cash and records the amount."

Federal Acquisition Regulation (FAR), *Interagency Acquisitions Subpart 17.502-2, The Economy Act,* states that "(1) The servicing agency may ask the requesting agency, in writing, for advance payment for all or part of the estimated cost of furnishing the supplies or services. Adjustment on the basis of actual costs shall be made as agreed to by the agencies. (2) If approved by the servicing agency, payment for actual costs may be made by the requesting agency after the supplies or services have been furnished. (3) Bills rendered or requests for advance payment shall not be subject to audit or certification in advance of payment. (4) If the Economy Act order requires use of a contract by the servicing agency, then in no event shall the servicing agency require, or the requiring agency pay, any fee or charge in excess of the actual cost (or estimated cost if the actual cost is not known) of entering into and administering the contract or other agreement under which the order is filled."

OMB Circular A-123, *Management's Responsibility for Internal Control* states that "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."

Recommendation:
26. We recommend that FMFS and/or FMPB perform a periodic analysis (reconciliation) of unearned revenue versus expenditures incurred from IAA's to ensure the earned revenue balance is completely and accurately stated. Any significant variances in activity should be investigated by FMFS and FMPB, with ESC.

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

Accounts Payable (AP) and Expenses

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

a. Accounts Payable Monitoring and Control Environment

Condition:
During our Accounts Payable (AP) walkthrough with the Division of Financial Management (FMFS) on 6/14/11, we noted that management discussed specific Delphi reports from the Enterprise Service Center (ESC) that would be used to monitor the AP balances. We noted that the AP integrity reports were to be run weekly from Delphi, and then assigned to specific FMFS accountants to monitor financial statement activity. The reports and assignments were as follows:

Web Reports:
- Purchase Order Information (PO00080)
- Approved/Unpaid Invoice (AP00197)

Integrity Reports:
- Receipt with NO Transaction Code (PO00143)
- Purchase Order with NO Transaction Code (PO00144)
- Unapproved Cancelled Invoices Report (AP15023).
- Invoices with NO Transaction Code (AP00004).
- Accounting Entries Error Report (AP00005)

- Payables Interfaces Not Processed (AP00012)
- Payments with NO Transaction Code (AP00009)
- Invoices on Hold (AP00013)
- Invoice Aging (AP00008)
- Unapproved Invoice Batch Report (AP15024)

Discoverer Reports: (Currently trying to get access to these reports)
- Invoice Transaction Code Errors
- Over-Billed PO
- Distribution Report

The walkthrough meeting addressed the transition period of controls in place by FMFS as of 5/2/11 when the office outsourced the transactional accounting to ESC. We requested the above reports as of the week ending 5/9/11 to evaluate the design and implementation of the control.

We noted 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. We further noted that the reports that were evidenced by sign-off had not been run and/or reviewed timely, as a majority of them were signed and dated from 6/21/11 through of 6/23/11, which was after the walkthrough took place.

We further noted that there was no evidence of any analysis being performed on these reports. They were run and then signed off and dated in a log and then signed off by management. We do not consider this to be a key control implemented to perform control oversight on the AP process area. Although it is noted that the FMFS accountants run the reports and then pose question to ESC in focus meetings about the issues, ESC also uses these reports internally to identify reporting issues and exceptions. If the reports are being used internally by ESC and then FMFS is analyzing the same reports, the work being performed is redundant.

We noted that management receives a monthly log from ESC that shows the invoices that were approved/disapproved for payment; however, there is no reconciliation performed monthly to ensure that all the invoices received by FMFS and/or directly by ESC were all entered into Delphi and paid accurately.

Cause:
We noted that with the transition to ESC accounting in the middle of the fiscal year, this posed significant changes to the internal control structure of FMFS. Although the transition date occurred on 5/2/11, the controls were not completely designed and/or in place to be effective at this point in time. Training of FMFS staff was still occurring and the positions within the department were changing to accommodate the transition. The planning of the transition to ESC accounting was not adequate to develop the controls and have them in place at the point in time the transition took place.

Effect:
The weakness identified in internal control can contribute to possible misstatements of reported financial statement amounts; which can lead to significant deficiencies and/ or material weaknesses or fraudulent reporting of the Commission's financial information.

Criteria:
OMB Circular A-123, *Management's Responsibility for Internal Control* states that "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."

5 Code of Federal Regulations (CFR) 1315: Prompt Payment, The Prompt Payment Final Rule (formerly OMB Circular A-125, "Prompt Payment") requires Executive departments and agencies to pay commercial obligations within certain time periods and to pay interest penalties when payments are late. Section 1315.4(f) of the Prompt Payment rule states that the period available to an agency to make a timely payment without incurring an interest penalty begins on the date of receipt of a proper invoice.

Recommendation:
27. In order for the review of the reports in question to be considered a key monitoring control, the control process and review structure need to be re-developed. We recommend that only a few specific reports be run and that a detailed analysis be performed over them to identify specific transactional issues that impact the financial statements. We also suggest that specific reports, such as the AP to GL and PO to GL monitoring reports that are being run as a part of the financial statement review also be performed in this process area and documented in the AP Standard Operating Procedures (SOP). The reports being run noted above, arė exception reports that ESC should focus on using internally, and then specific reports can be tailored to incorporate specific accounting analysis in the AP area to identify monthly transaction issues.
28. Although the transactional processing is performed by ESC, FMFS management is ultimately responsible for the completeness of the financial statements in general and in specific for ensuring that accounting transactions are processed completely and accurately. Thus, we recommend that FMFS develops a reconciliation to identify all the invoices by type (i.e. vendor, IPAC, or Travel) that are received/processed during the month by ESC. The reconciliation should identify the status of each invoice received, such as receipt date, paid date, and date recorded in Delphi, etc. The reconciliation prepared should be compared against ESC's integrity report(s) to effectively monitor if ESC is obtaining and entering invoices in a timely and proper manner. This reconciliation should also be used in conjunction with the monitoring of the associated obligation related to the payment.
29. We further recommend that if the above reports are to be used, that they are obtained and reviewed in a timely manner and that the proper oversight techniques be used by the FMFS accountants and management to ensure the proper reporting of financial statement transactions. FMFS accounting staff should be trained on how to obtain and analyze the

specific reports needed in order to identify potential accounting issues that need to be reported back to ESC.

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

b. *Government Purchase Card Compliance and Internal Control*

Condition:
Through a review of 45 US Bank Purchase Card transactions, we noted the one sample did not have the proper approving official authorize the bank statement transactions for payment. Per review of sample #36 for Purchase Card Holder Mr. X on the 3/16/11 statement, Ms. Y approved the statement for Ms. Z, Chief of the Office of Facilities. We further noted that Y did not date her approval.

Per discussion with FMFS management, we noted that Ms. Z is the authorized approving official and in her absence, Ms. Y is the acting chief for facilities management. However, we have not been notified of any document or memo authorizing Ms. Y to approve any employee's bank statement. In this case, the employee in question is one that she does not directly supervise and is on the same organizational level as the she is within the agency.

We also noted that Ms. Y did not date the day in which she approved the bank statement for payment; therefore, we were unable to justify the delegation of authority to Ms. Y to approve the statement. For instance, if Ms. Y was unavailable for a short time period (less than a day), there was still time for Ms. Z to approve the statement.

We further noted this to be a repeat finding to audit finding #8 in FY 2010 for "Government Purchase Card Compliance and Internal Controls." In the prior year finding, we noted that Ms. Y was authorizing purchase card transaction for payment of Mr. X on behalf of Ms. Z and not dating the statement upon approval.

Cause:
FMFS still does not have the proper control over review and approval procedures of Purchase Card payments resulting inconsistent application of review and authorization controls.

Effect:
Weaknesses in the design or operation of internal control could potentially have an adverse affect on the Commission's financial reporting and compliance related to vendor payments. Further, these weaknesses can lead to improper use of the Government Purchase card, resulting in unauthorized purchases and possibly fraudulent transactions.

Criteria:
OMB Circular A-123, *Management's Responsibility for Internal Control* states that "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."

CPSC Directive Order No. 1540.1- The provisions of this order are applicable to CPSC employees who have been issued a purchase card as well as CPSC officials responsible for authorizing, approving, or overseeing the Government wide Commercial Purchase Card Program. *Approving Official (6b)*. The person responsible for: designating and monitoring cardholders in a specific organizational unit; reviewing the appropriateness of each item purchased by assigned cardholders; reviewing cardholders monthly statements; sending statements to the Finance Office and providing guidance to the cardholders in accordance with existing policy.
ADFS (13b). ADFS will: (1) Process all requests for new cards; (2) Notify the Purchase Card Company of all cancelled cards and changes; (3) Assist cardholders in resolving disputes; (4) Certify payments based on the cardholder's and approving officials signatures; and (5) Process payments on time to the Purchase Card Company in accordance with the Prompt Payment Act.

CSC Directive Order 1540.1a- Purchase Card Handbook – same as above

Recommendation:
30. We recommend that in the future, the Office of Facilities properly delegates authority to an individual with supervisorial capacity at or above Ms. Z's supervisorial level to approve purchase card transactions, in the event of Ms. Parks extended absence.
31. We further recommend that FMFS monitors the approvals of bank card holders to ensure that they are being authorized by the appropriate and agency assigned officers. FMFS should not process payments for approval unless appropriate approval is obtained, regardless of the circumstances.

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

c. *Intra-governmental Payment and Collection (IPAC) Transactions Approval and Document Retention*

Condition:
We noted that out of an internal control sample of 45 items, the Division of Financial Management (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.

Cause:
FMFS transitioned to ESC outsourced accounting as of 5/2/11. At that time, all CPSC accounting files over payments were sent to ESC. We noted that FMFS did not have the proper document retention (i.e. did not retain copies of the files sent to ESC) over the items that were sent to ESC. FMFS also failed to track the documentation that ESC took for the transition.

We further noted that FMFS does not have the proper monitoring and oversight over IPAC payments to verify the approvals for payment and the accuracy of the IPAC transaction.

Effect:
Weaknesses in the design or operation of internal control could potentially have an adverse affect the Commission's financial reporting over accounts payable resulting is misstatements of significant financial accounts.

Criteria:
Treasury Financial Manual, Transmittal Letter No. 619, Part 6 – Chapter 4000, *Intragovernmental Payment and Collection (IPAC) System*

- *Section 4025.10*: Before accessing the IPAC System, each FPA must assign an IPAC Agency Administrator (IAA) for each of its ALCs. The IAA is responsible for registering agency personnel as IPAC users. If FMS has not assigned an IAA to the agency, the agency should contact FMS (see the Contacts page).

- *Section 4030*: Each Federal agency's accounting office must verify the accuracy of the transactions retrieved from the IPAC System. Agencies follow standard procedures to record the transactions applicable to their Treasury Account Symbols as of the accomplished/ transaction date reflected in the IPAC System.

OMB Circular A-123, *Management's Responsibility for Internal Control* states that "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."

Recommendation:
32. We recommend that the FMFS division strengthens controls over document retention related to all payments. Although ESC is used as an accounting service provider, FMFS should ensure the proper documents are retained in order to allow FMFS to verify and review the accuracy of ESC's payment processing.
33. We further recommend that the FMFS division takes more oversight responsibility over ESC activity and transactions. The review and approval of all ESC accounting entries should be highly monitored by FMFS management to ensure the accuracy of financial reporting.

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

d. Manual Travel Payments Compliance and Internal Controls

Condition:
Through a Test of Operating Effectiveness, we noted that out of a sample of 45 manual travel payments as of 6/30/2011, the Travel Authorization form for sample number 33 did not have an approval authorizing the employee to make travel reservations.

Further ,We noted the Travel Authorization form for sample number 43 was signed and dated by the approving official on 9/27/2010, but the date of travel was from 6/28/2010 – 6/29/2010. The Travel Authorization form must be signed and dated by the approving official prior to the period of travel.

We also noted the Travel Voucher for samples 29 & 34 did not have proper authorization from the approving official for payment.

In all, 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.

Cause:
FMFS does not have the proper internal controls to ensure payments are paid timely, accurately, and in accordance with applicable laws and regulations. Further, FMFS management does not follow-up or consistently monitor FMFS staff performing controls to ensure that controls are performed are consistently applied correct and in a timely fashion.

Effect:
The weakness in the design or operation of internal control could potentially have an adverse affect on the Commission's financial statements and compliance with applicable laws and regulations, which could lead to material misstatements.

Criteria:
OMB Circular A-123, *Management's Responsibility for Internal Control* states that "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."

CPSC Directive 1300.*1 CPSC Travel Policy and Procedures*:

Responsibilities – Authorizing Officials (6a). Each authorizing official will maintain effective, systematic and positive control over travel expenditures. All proposed travel must be critically examined and determined to be absolutely necessary prior to the issuance of travel orders.

Responsibilities – Travelers (6b). Travelers shall submit accurate and factual vouchers for reimbursement of their traveling expenses. False statements involving claims for mileage, lodging, or other traveling expenses may result in the disallowance of the entire amount claimed by the employee on the voucher, and appropriate administrative or legal action where circumstances warrant.

Responsibilities – Supervisor's Responsibilities (6c). Supervisory review is primarily to confirm that the travel for which expenses are being claimed was performed as authorized. In reviewing Travel Vouchers, supervisors have the authority and the responsibility to reduce claims that are unreasonable and not justified by the employee.

CPSC Directive 0355.1 *Authority to CPSC Officials to Authorize Travel, Transportation and Related Allowances:*

General Delegations of Authority (8d). Travel must be authorized by an authorized official occupying a higher organizational level of authority in the chain of command.

Authority to Approve Travel Vouchers (10). Travel Vouchers including those of Regional Office Directors, must be signed by a supervisor after completion of a trip or period of travel, or every 30 days if the employee is in a continuous travel status. Approving officials shall ensure that Travel Vouchers are submitted to ADFS within 15 workdays after travel is completed.

Federal Travel Regulation (FTR) §301-2.1 states that "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".

Further, 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".

Recommendation:

34. We recommend that the FMFS division strengthens 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 Standard Operating

Procedure (SOP) that defines FMFS' responsibilities that are not expressed in the current CPSC directives.

35. We would also recommend that the travel authorization and vouchers have a second level review performed to ensure all internal control reviews have been performed prior to the submission of payment.

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

e. *Incorrect Per Diem Calculations*

Condition:
Through a Test of Operating Effectiveness, we noted that 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.

Cause:
FMFS does not have the proper internal controls to ensure payments are paid timely, accurately, and in accordance with applicable laws and regulations. Further, FMFS management does not follow-up or consistently monitor FMFS staff performing controls to ensure that controls are performed, are consistently applied correctly, and in a timely fashion.

Effect:
The weakness in the design or operation of internal control could potentially have an adverse affect on the Commission's financial statements and compliance with applicable laws and regulations, which could lead to material misstatements.

Criteria:
OMB Circular A-123, *Management's Responsibility for Internal Control* states that "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."

Federal Travel Regulation (FTR) §301-11.1 indicates an employee is eligible for reimbursement of official travel when:

(a) "You perform official travel away from your official station, or other areas defined by your agency;
(b) You incur per diem expenses while performing official travel; and
(c) You are in a travel status for more than 12 hours".

Further, FTR §301-11.10 states that travelers "do not have to record departure/arrival times, but travelers must annotate your travel claim when travel is more than 12 hours but not exceeding 24 hours to reflect that fact".

Federal Travel Regulation (FTR): FY 2010 Per Diem rates for Maryland. Meals & Inc. Exp. Payment breakdown for First & Last Day of Travel.

Recommendations:
36. We recommend that the FMFS division strengthens controls over payment authorizations, to ensure proper approved payments are validated. FMFS should ensure travel costs are reimbursed in accordance to the Federal Travel Regulation (FTR), including the use of per diem rates for meal expenses. To accomplish this, we recommend that second level review is performed on travel authorizations and vouchers to ensure all internal control reviews have been performed prior to the processing of the obligation and payment.
37. We also recommend that FMFS follow-up on the two payments noted above, as follows:

> Sample 23 – Follow-up with the traveler to determine the actual time of travel. If travel time does not exceed 12 hours, FMFS should recoup the allowance reimbursement paid.
> Sample 9 – Follow-up with the traveler to verify actual travel time. If travel time is accurately stated, FMFS should pay the traveler the additional $11.25 owed to the traveler.

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

f. SF-1164 Payment Compliance and Internal Controls

Condition:
Through a test of operating effectiveness, we noted that 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 time frame, as specified by the FTR.

Cause:
The Division of Financial Management does not have the proper controls in place over the review and approval procedures of SF-1164 vouchers resulting inconsistent application of review and authorization controls.

Effect:
Weakness in the design or operation of internal control could potentially have an adverse affect on the Commission's financial reporting resulting in misstatements of significant financial accounts.

Criteria:
Federal Travel Regulation (FTR) §301-52.17, states that the "agency must reimburse you within 30 calendar days after the traveler submits a proper travel claim to the agency's designated approving office. The 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 the agency's policy, could be annotated with the time and date of receipt by your agency".

OMB Circular A-123, *Management's Responsibility for Internal Control* states that "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."

Recommendation:
38. We recommend that the FMFS division strengthens controls over the processing of SF-1164 vouchers and that the relevant employees receive appropriate training on these controls. This can be accomplished through the creation of a Standard Operating Procedure that defines FMFS' responsibilities that are not expressed in the current CPSC directives.
39. We recommend that the FMFS division strengthens controls over the initial receipt of travel vouchers and coordination of approvals to expedite the payment process and ensure that it is carried out in accordance with appropriate laws and regulations. To do so, FMFS should develop a method to properly track the SF-1164 vouchers received to efficiently ensure proper and timely payment. We would also recommend that the SF-1164 vouchers have a second level review performed to ensure all internal control reviews have been performed prior to the submission of payment.

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

g. Lack of Supporting Documentation for SF-1164 Transactions

Condition:
Through a test of operating effectiveness, we noted that 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.

Cause:
FMFS transitioned to ESC outsourced accounting as of 5/2/11. At that time, all CPSC accounting files relating to payments were sent to ESC. We noted that FMFS did not have the proper document retention policies in place (i.e. did not retain copies of the files sent to ESC) regarding the items that were sent to ESC. FMFS also failed to track the documentation that ESC took for the transition.

Effect:
Weakness in the design or operation of internal control could potentially have an adverse affect on the Commission's financial reporting resulting in misstatements of significant financial accounts.

Criteria:
OMB Circular A-123, *Management's Responsibility for Internal Control* states that "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."

Recommendations:
40. We recommend that the FMFS division strengthens controls over document retention related to all payments. Although ESC is used as an accounting service provider, FMFS should ensure the proper documents are retained in order to allow FMFS to verify and review the accuracy of ESC's payment processing. Compliance with Laws and Regulations.

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

Compliance with Laws and Regulations

h. Prompt Payment Act Compliance

Condition:
Out of a review over a control sample of 45 items we noted the following:

- Sample #18- We noted that the invoice was received and date stamped by FMFS on 10/14/10 in the amount of $18,000. It was approved for payment on 10/15/10.

The invoice was then validated and paid in Delphi on 11/29/10. Based on the prompt payment act, the 30 day time period for payment would be on 11/14/10, therefore, the invoice was paid late. Per the Delphi invoice register report, we noted that interest was not calculated or paid out to the vendor.

- Sample #27- We noted that the invoice was received and date stamped by FMFS on 2/16/11 in the amount of $6,666.00. It was approved for payment on 3/1/11. The invoice was validated and paid in Delphi on 3/28/11. Based on the prompt payment act, the 30 day time period for payment would be on 2/16/11, therefore, the invoice was paid late. Per the Delphi invoice register report, we noted that interest was not calculated or paid out to the vendor.

- Sample #41- We noted that the invoice was received and date stamped by FMFS on 1/19/11 in the amount of $170,591.00. It was approved for payment on 2/22/11. The invoice was validated and paid in Delphi on 2/23/11. Based on the prompt payment act, the 30 day time period for payment would be on 2/19/11, therefore, the invoice was paid late. Per the Delphi invoice register report, we noted that interest was not calculated or paid out to the vendor.

Cause:
The Division of Financial Management (FMFS) does not have the proper control over prompt payments. Upon review of the sampled invoices, we noted that there is a date stamp for the "FMFS Division" that is stamped upon receipt of the invoice for payment. FMFS then sends the invoice to the specific inter-agency office for approval before payment, and re-stamps the invoice when it comes back in after approval. FMFS on occasion uses the second stamp date for the prompt payment compliance timeframe, which is incorrect per the guidance cited above. The 30 day timeline begins at the initial date the invoice is stamped by the designated agency office, FMFS, until complete payment is made.

Effect:
Weaknesses in the design or operation of internal control could potentially have an adverse affect on the Commission's financial reporting and compliance with the Prompt Payment Act and contractual vendor agreements.

Criteria:
5 Code of Federal Regulations (CFR) 1315: Prompt Payment, The Prompt Payment Final Rule (formerly OMB Circular A-125, "Prompt Payment") requires Executive departments and agencies to pay commercial obligations within certain time periods and to pay interest penalties when payments are late. Section 1315.4(f) of the Prompt Payment rule states that the period available to an agency to make a timely payment without incurring an interest penalty begins on the date of receipt of a proper invoice.

Specific Prompt Payment Guidance related to the finding:

Section 1315.4(b) of the rule provides that an invoice is deemed to be received on the later of 1) the date a proper invoice is received by an agency if the agency annotates the invoice with the date of receipt, or 2) the seventh day after the date in which goods are delivered or services completed, unless acceptance occurs earlier or if a longer acceptance period is specified in the contract. If the agency fails to annotate an invoice with the date of receipt of the invoice, the date placed on the invoice by the contractor is used to determine the start date for the payment period.

Unless otherwise specified, Section 1315.4(g) of the Prompt Payment rule states that payment is due on either 1) the date specified in the contract, 2) in accordance with discount terms when discounts are offered and taken, 3) in accordance with Accelerated Payment Methods, or 4) 30 days after the start of a payment period, when a proper invoice is received.

When an invoice is determined improper, an agency must return the invoice to the vendor as soon as possible but no later than 7 days after receipt of the improper invoice. When returning an improper invoice, agencies are required to identify all defects that prevent payment.

If an agency fails to return the improper invoice to the vendor within 7 days of receiving the invoice, the number of days allowed for payment of a corrected invoice is reduced by the number of days between the seventh day and the day the improper invoice is sent to the vendor. For example, if an agency receives an invoice on November 1 but does not return it as improper to the vendor until November 13, 5 days after required, and the agency receives a corrected invoice on November 20, the payment due date is December 14, or 5 days earlier, if the payment was due 30 days after receipt of a proper invoice.

CPSC Directives Order No. 1200.1: It is the policy of CPSC to follow cash management practices and techniques designed to accelerate and control collections, ensure prompt deposit of receipts, improve control over disbursement methods, and eliminate idle cash balances. These procedures require the use of timely methods, principally Electronic Funds Transfer (EFT) for the collection, deposit, and disbursement of funds.

OMB Circular A-123, *Management's Responsibility for Internal Control,* states that "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."

This deficiency was first reported as a Notice of Finding and Recommendation of the FY 2010 financial statement audit on November 19, 2010.

Recommendation:
41. We noted this to be a repeat finding based on the FY 2010 Finding #4-Non-Compliance with Prompt Payment. We recommend that the FMFS division strengthens controls over the initial receipt of invoices and coordination of approvals from inter-agency offices to expedite the payment process to be in compliance with the Prompt Payment Act.
42. We further recommend that FMFS develops a method to properly track the invoices received, sent within the agency to specific offices, or sent back to vendors to efficiently ensure proper and timely payment.

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

i. Non-Compliance with the Debt Collection Improvement Act (DCIA)

Condition:
Through test of compliance with DCIA, we noted 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 (PBC Item 94) as part as our internal control review and determined of the 45 sampled 14 (1, 3, 8, 11, 13, 15, 16, 17, 19, 20, 24, 26, 27, 28, 29, 37, 42, & 43) transactions that were collected that were 180+ days past due, that were not transferred to Fed Debt, as required by DCIA.

Cause:
The Division of Financial Management is not properly reviewing and transferring the debt related receivables timely to Fed Debt.

Effect:
Weakness in the design or operation of internal control could potentially have an adverse affect on the Commission's financial reporting resulting in misstatements of significant financial accounts.

Criteria:
The Debt Collection Improvement Act of 1996 (DCIA) 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 DCIA also provides exceptions to this general requirement when the debt or claim 1) is in litigation or foreclosure, 2) will be disposed of by sale under certain conditions, 3) has been referred to a private collection contractor for collection, 4) has been referred by, or with consent of, the Secretary of the Treasury to a debt collection center, 5) will be collected under internal offset, or 6) the debt is less than $25.

OMB Circular A-123, *Management's Responsibility for Internal Control* states that "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."

This deficiency was first reported as a Notice of Finding and Recommendation of the FY 2010 financial statement audit on October 25, 2010.

Recommendation:
43. We recommend that the Division of Financial Services 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.