



United States  
CONSUMER PRODUCT SAFETY COMMISSION  
Washington, DC 20814

OFFICE OF THE INSPECTOR GENERAL

Audit Report

CONSUMER PRODUCT SAFETY COMMISSION'S  
FISCAL YEAR (FY) 2005 FINANCIAL STATEMENTS

Date Issued: November 8, 2005

# AUDIT OF CPSC'S FY 2005 FINANCIAL STATEMENTS

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**Consumer Product Safety Commission**  
**Audit of Financial Statements**  
**For Fiscal Year 2005**

**Summary:** In our financial statements audit of the Consumer Product Safety Commission (CPSC) for fiscal year 2005, we found:

- the principle financial statements and related notes are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles;
- CPSC had effective internal control over financial reporting (including safeguarding assets) and compliance with laws and regulations;
- the Federal Financial System (FFS) used by the Commission substantially complies with financial system requirements set forth in the Federal Financial Management Improvement Act (FFMIA) of 1996; and
- no reportable noncompliance with the laws and regulations we tested.

The following sections discuss in more detail (1) these conclusions and our conclusions on Management's Discussion and Analysis and other supplementary information and (2) the scope of our audit.

**Opinion on Financial Statements:** The financial statements, including the accompanying notes, presents fairly, in all material respects, in conformity with U.S. generally accepted accounting principles, CPSC's assets, liabilities, and net position; net costs; changes in net position; budgetary resources; reconciliation of net costs to budgetary obligations; and custodial activity as of September 30, 2005 and for the year then ended.

**Opinion on Internal Control:** The Consumer Product Safety Commission maintained, in all material respects, effective internal control over financial reporting (including safeguarding assets and prevention of fraud) and compliance as of September 30, 2005. CPSC's internal controls 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;" the Office of Management and Budget (OMB) Circular A-123, "Management Accountability and Control;" revised OMB Bulletin No. 01-02, "Audit Requirements for Federal Financial Statements;" attestation standards established by the American Institute of Certified Public Accountants (AICPA), the Government Accountability Office (GAO), "Government Auditing Standards" (The Yellow Book); and the "GAO/President's Council on Integrity and Efficiency (PCIE) Financial Audit Manual."

**Systems' Compliance with FFMIA Requirements:** Our tests for systems' compliance with Federal Financial Management Improvement Act requirements found that the Consumer Product Safety Commission's financial management systems substantially comply with Federal financial management systems' requirements, Federal accounting standards, and comply with the Treasury

Financial Manual and the United States Government Standard General Ledger at the transactional level; as required by the FFMIA. Our opinion is based on criteria established under the "Federal Financial Management Improvement Act" (FFMIA) of 1996.

**Compliance with Laws and Regulations:** Our tests for compliance with selected provisions of laws and regulations disclosed no 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 overall compliance with laws and regulations. Accordingly, we do not express such an opinion.

**Consistency of Other Information:** Management's 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 CPSC officials. Based on this limited work, we found no material inconsistencies with the financial statements or nonconformance with OMB guidance. Nothing came to our attention that would indicate (1) instances of fraud and illegal acts, (2) violation of contract provisions, or (3) abuse or mismanagement in accordance with Generally Accepted Government Auditing Standard 5.12 as amended.

**Objectives, Scope, and Methodology:** Management is responsible for: (1) preparing the financial statements in conformity with 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; (3) ensuring that CPSC's financial management systems substantially comply with FFMIA requirements; and (4) complying with applicable laws and regulations.

We are responsible for obtaining reasonable assurance about whether (1) the financial statements are presented fairly, in all material respects, in conformity with generally accepted accounting principles and (2) management maintained effective internal control, the objectives of which are the following:

- Financial Reporting: Transactions are properly recorded, processed, and summarized to permit the preparation of financial statements in conformity with 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 laws governing the use of budget authority and with other laws and regulations that could have a direct and material effect on the financial statements and any other laws, regulations, and government-wide policies identified by OMB audit guidance.

We are also responsible for (1) testing whether the CPSC's financial management systems substantially comply with the three FFMIA requirements, (2) testing compliance with selected provisions of laws and regulations that have a direct and material effect on the financial statements and laws for which OMB audit guidance requires testing, and (3) performing limited procedures with respect to certain other information appearing in the Accountability report.

In order to fulfill these responsibilities, we (1) examined, on a test basis, evidence supporting the amounts and disclosures in the financial statements, (2) assessed the accounting principles used and significant estimates made by management, (3) evaluated the overall presentation of the financial statements, (4) obtained an understanding of internal control related to financial reporting (including safeguarding assets and detection of potential fraud), compliance with laws and regulations (including execution of transactions in accordance with budget authority), and performance measures reported in Management's Discussion and Analysis, (5) tested relevant internal controls over financial reporting, and compliance, and evaluated the design and operating effectiveness of internal control, (6) considered the process for evaluating and reporting on internal control and financial management systems under the Federal Managers' Financial Integrity Act, (7) tested whether CPSC's financial management systems substantially complied with the three FFMIA requirements, and (8) tested compliance with selected provisions of the following laws and regulations: the Prompt Payment Act., the Debt Collection Improvement Act of 1996, the Anti-Deficiency Act, the Improper Payments Information Act of 2002, 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 CPSC. We limited our tests of compliance to those laws and regulations required by OMB audit guidance that we deemed applicable to the financial statements for the fiscal year ended September 30, 2005. We caution that noncompliance may occur and not be detected by these tests and that such testing may not be sufficient for other purposes.

Our audit work was conducted in accordance with U.S. generally accepted Government auditing standards as issued by the Government Accountability Office and OMB audit guidance as stated in OMB Bulletin No. 01-02.

**Agency Comments and Our Evaluation:** In commenting on a draft of this report (see appendix 1), the CPSC's management concurred with the facts and conclusions cited in our report.

MANAGEMENT'S RESPONSE



UNITED STATES  
CONSUMER PRODUCT SAFETY COMMISSION  
WASHINGTON, DC 20207

**Memorandum**

Date: November 7, 2005

TO : Christopher Dentel  
Inspector General

THROUGH: Edward E. Quist *eeq*  
Director  
Office of Financial Management, Planning and Evaluation

FROM : Deborah Peebles Hodge *dph*  
Director  
Division of Financial Services

SUBJECT : Audit of FY 2005 Financial Statements

I have reviewed the audit report on the financial statements for Fiscal Year 2005. I concur with the findings and opinions expressed in the report.

MANAGEMENT REPRESENTATION LETTER





UNITED STATES  
CONSUMER PRODUCT SAFETY COMMISSION  
WASHINGTON, DC 20207

**Memorandum**

Date: November 3, 2005

TO : Christopher W. Dentel  
Inspector General  
Office of the Inspector General

THROUGH: Patricia Semple *PS*  
Executive Director

FROM : Edward E. Quist, Director, Office of Financial Management, Planning and  
Evaluation *EEQ*  
Deborah P. Hodge, Director, Division of Financial Services *Dph*

SUBJECT : Fiscal Year 2005 Financial Statements – Management Representation

This letter is in connection with your audit of the U.S. Consumer Product Safety Commission's (CPSC) balance sheet as of September 30, 2005 and the related statements of net costs, changes in net position, budgetary resources, financing, and custodial activity, for the year then ended for the purposes of (1) expressing an opinion as to whether the financial statements are presented fairly, in all material respects, in conformity with generally accepted accounting principles, (2) expressing an opinion on CPSC's internal control as of September 30, 2005 (3) reporting whether the CPSC financial management systems substantially comply with federal financial management systems requirements, applicable federal accounting standards (generally accepted accounting principles), and the *U.S. Government Standard General Ledger* at the transaction level as of September 30, 2005, and (4) testing for compliance with applicable laws and regulations.

Certain representations in this letter are described as being limited to matters that are material. For purposes of this letter, matters are considered material if they involve, regardless of size, an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm, to the best of our knowledge and belief, the following representations made to you during the audit pertaining to the 2005 financial statements:

1. We are responsible for the fair presentation of the financial statements and stewardship information in conformity with generally accepted accounting principles.
2. The financial statements are fairly presented in conformity with generally accepted accounting principles.

3. We have made available to you all:
  - a. Financial records and related data;
  - b. Where applicable, minutes of meetings of the Commission or summaries of actions of recent meetings for which minutes have not been prepared; and
  - c. Communications from the Office of Management and Budget (OMB) concerning noncompliance with or deficiencies in financial reporting practices.
4. There are no material transactions that have not been properly recorded in the accounting records underlying the financial statements or disclosed in the notes to the financial statements.
5. We believe that there are no uncorrected misstatements, both individually and in the aggregate, to the financial statements.
6. The CPSC has satisfactory title to all owned assets, including plant, and equipment; such assets have no liens or encumbrances; and no assets have been pledged.
7. We have no plans or intentions that may materially affect the carrying value or classification of assets and liabilities.
8. Liabilities under which the Commission is contingently liable have been properly reported or disclosed.
9. Accounts receivable or payable, including civil penalty and freedom of information act (FOIA) assessments, have been properly recorded and disclosed.
10. All intragovernmental transactions and balances have been appropriately recorded, reported, and disclosed. We have reconciled intragovernmental transactions and balances with the appropriate trading partners for the four fiduciary transactions identified in Treasury's *Intra-governmental Fiduciary Transactions Accounting Guide*, and other intragovernmental asset, liability, and revenue amounts as required by OMB Bulletin 97-01, as amended.
11. There are no:
  - a. Possible violations of laws or regulations whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency;
  - b. Material liabilities or gain or loss contingencies that are required to be accrued or disclosed that have not been accrued or disclosed; or
  - c. Unasserted claims or assessments that are probable of assertion and must be disclosed that have not been disclosed.
12. We have complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.

13. No material events or transactions have occurred subsequent to September 30, 2005 that has not been properly recorded in the financial statements information or disclosed in the notes.
14. We believe that there has been no material fraud (intentional misstatements or omissions of amounts or disclosures in financial statements and misappropriation of assets that could have a material effect on the financial statements) or any fraud involving management or employees involved in the preparation of financial statements.
15. We are responsible for establishing and maintaining internal control.
16. Pursuant to the Federal Managers Financial Integrity Act, we have assessed the effectiveness of CPSC's internal control in achieving the following objectives:
  - a. Reliability of financial reporting – transactions are properly recorded, processed, and summarized to permit the preparation of financial statements and stewardship information in accordance with generally accepted accounting principles, and assets are safeguarded against loss from unauthorized acquisition, use or disposition;
  - b. Compliance with applicable laws and regulations – transactions are executed in accordance with (i) laws governing the use of budget authority and with other laws and regulations that could have a direct and material effect on the financial statements and (ii) any other laws, regulations, and governmentwide policies identified by OMB in its audit guidance; and
  - c. Reliability of performance reporting – transactions and other data that support reported performance measures are properly recorded, processed, and summarized to permit the preparation of performance information in accordance with criteria stated by management.
17. Those controls in place on September 30, 2005, provided reasonable assurance that the foregoing objectives are met.
18. We have disclosed to you that there are no significant deficiencies in the design or operation of internal control that could adversely affect the entity's ability to meet the internal control objectives and identified those we believe to be material weaknesses.
19. There have been no changes to internal control subsequent to September 30, 2005 or other factors that might significantly affect it.
20. We are responsible for implementing and maintaining financial management systems that comply substantially with federal financial management systems requirements, federal accounting standards (generally accepted accounting principles), and the *U.S. Government Standard General Ledger* at the transaction level.

21. We have assessed the financial management systems to determine whether they comply substantially with these federal financial management systems requirements. Our assessment was based on guidance issued by OMB.
22. The financial management systems complied substantially with federal financial management systems requirements, federal accounting standards, and the *U.S. Government Standard General Ledger* at the transaction level as of September 30, 2005.
23. We are responsible for CPSC's compliance with applicable laws and regulations.
24. We have identified and disclosed to you all laws and regulations that have a direct and material effect on the determination of financial statement amounts.
25. We have disclosed to you that we believe there are no known instances of noncompliance with laws and regulations.

LEGAL REPRESENTATION LETTER, REDACTED



U.S. CONSUMER PRODUCT SAFETY COMMISSION  
WASHINGTON, DC 20207

Page C. Faulk  
General Counsel

Tel: 301-504-7626  
Fax: 301-504-0403  
E-Mail: [pfaulk@cpsc.gov](mailto:pfaulk@cpsc.gov)

September 12, 2005

Frank Giordano  
Auditor  
Consumer Product Safety Commission  
Bethesda, Md. 20814

Subject: Legal Response in Connection with the Fiscal Year 2005  
Financial Statement of Consumer Product Safety Commission

Dear Mr. Giordano:

As General Counsel of the Consumer Product Safety Commission (CPSC), I am writing in response to the letter request from Christopher W. Dentel, Inspector General dated August 25, 2005 in connection with the audit of CPSC's financial statements as of and for the fiscal year ended September 30, 2005.

I call your attention to the fact that as General Counsel for CPSC, I have general supervision of CPSC's legal affairs, which include but are not limited to responsibility for the conduct of all Federal court litigation to which the Commission is a party. I also have authority on administrative litigation matters. In such capacity, I have reviewed litigation and claims threatened or asserted involving CPSC and have consulted with outside legal counsel about them when I deemed appropriate.

Subject to the foregoing and to the last paragraph of this letter, I advise you that since October 1, 2004 neither I, nor any of the lawyers over whom I exercise general legal supervision, have given substantive attention to, or represented CPSC in connection with any loss contingencies coming within scope of clause (a) of Paragraph 5 of the Statement of Policy referred to in the last paragraph of this letter, except as follows:

***Pending or Threatened Litigation (excluding unasserted claims)***

There are five pending litigation actions. See the attached Department of Justice forms.

With respect to matters that have been specifically identified as contemplated by clauses (b) or (c) of paragraph 5 of the ABA Statement of Policy, I advise you, subject to the last paragraph of this letter as follows:

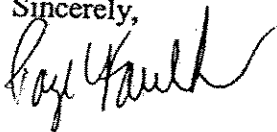
### ***Unasserted Claims and Assessments***

There is one unasserted claim. See the attached Department of Justice form.

The information set forth herein is as of the date of this letter, the date on which we commenced our internal review procedures for purposes of preparing this response, except as otherwise noted. I disclaim any undertaking to advise you of changes that, thereafter, may be brought to my attention or the attention of our lawyers over whom I exercise general legal supervision.

This response is limited by, and in accordance with the *ABA Statement of Policy Regarding Lawyers' Responses to Auditors' Requests for Information* (December 1975); without limiting the generality of the foregoing, the limitations set forth in such statement on the scope and use of this response (Paragraphs 2 and 7) are specifically incorporated herein by reference, and any description herein of any "loss contingencies" is qualified in its entirety by Paragraph 5 of the statement and the accompanying commentary (which is an integral part of the statement). Consistent with the last sentence of Paragraph 6 of the ABA Statement of Policy, this will confirm as correct CPSC's understanding that whenever, in the course of performing legal service for CPSC with respect to a matter recognized to involve an unasserted possible claim or assessment that may call for financial statement disclosure, I have formed a professional conclusion that the entity must disclose or consider concerning such possible claim or assessment, I, as a matter of professional responsibility to CPSC, will so advise CPSC and will consult with CPSC concerning the question of such disclosure and the applicable requirements of Statement of Federal Financial Accounting Standards (SFFAS) Number 5, *Accounting for Liabilities of the Federal Government*, as amended by SFFAS Number 12, and Interpretation Number 2 of SFFAS Numbers 4 and 5.

Sincerely,



Page C. Faulk  
General Counsel

cc: Christopher W. Dentel  
Inspector General

**SUGGESTED DEPARTMENT OF JUSTICE FORM**

**PENDING OR THREATENED LITIGATION**

**AGENCY: Consumer Product Safety Commission**

**Amount of potential loss exceeds  
the agency/component materiality  
threshold of: \_\_\_\_\_**

**1. Case name.** (Include case citation, case number, and other names by which the case or group of cases is commonly known.)

*Jerome J. Mahoney and Rebecca G. Mahoney v. U.S. Consumer Product Safety Commission (3<sup>rd</sup> Cir. No. 04-3953)*

**2. Nature of matter.** (Include a description of the case or cases and amount claimed, if specified.)

*On January 30, 2003 CPSC settled a case against Daisy Manufacturing Co., Plaintiffs seek to have the settlement set aside alleging irregularities in connection with the settlement.*

**3. Progress of the case.**

*On September 30, 2004 the District Court Judge granted the government's motion to dismiss the action. Final judgment was entered on Oct 1, 2004. Plaintiffs filed a notice of appeal on October 8, 2004 in the United States Court of Appeals for the Third Circuit.*

**4. The government's response or planned response.** (For example, to contest the case vigorously or to seek an out-of-court settlement.)

**5. An evaluation of the likelihood of unfavorable outcome.** (Choose one.)

\_\_\_\_\_ PROBABLE – An unfavorable outcome is likely to occur.

\_\_\_\_\_ REASONABLY POSSIBLE – the chance of an unfavorable outcome is less than probable but more than remote.

X  REMOTE – the chance of an unfavorable outcome is slight.



**6. An estimate of the amount or range of potential loss** (if one can be made, for losses considered to be probable or reasonably possible).

*No damages – Plaintiffs are seeking injunctive relief. Note: On September 2, 2005 Third Circuit Court of Appeals affirmed District Court decisions dismissing lawsuit against CPSC.*

**7. The name and phone number of the government attorney handling the case** (and names and phone numbers of any outside legal counsel/other lawyers representing or advising the government in the matter.)

*Melissa Hampshire, CPSC (REDACTED)*

*Drake Cutini, DOJ*

*Patricia Gugin, AUSA*

**SUGGESTED DEPARTMENT OF JUSTICE FORM**

**PENDING OR THREATENED LITIGATION**

**AGENCY: Consumer Product Safety Commission**

**Amount of potential loss exceeds  
the agency/component materiality  
threshold of: \_\_\_\_\_**

**1. Case name.** (Include case citation, case number, and other names by which the case or group of cases is commonly known.)

*GEICO A/S/O (REDACTED)  
(Claim under the Federal Tort Clams Act)*

**2. Nature of matter.** (Include a description of the case or cases and amount claimed, if specified.)

*On April 7, 2005, Claimant's insured, (REDACTED) and a Commission employee, (REDACTED) were in a car accident in East Lyme, Connecticut. (REDACTED) rear-ended (REDACTED) when he stopped after beginning to make a right hand turn at a stop light. (REDACTED) was driving a government car and performing official duties at the time of the accident.*

**3. Progress of the case.**

*On September 30, 2004 the District Court Judge granted the government's motion to dismiss the action. Final judgment was entered on Oct 1, 2004. Plaintiffs filed a notice of appeal on October 8, 2004 in the United States Court of Appeals for the Third Circuit.*

**4. The government's response or planned response.** (For example, to contest the case vigorously or to seek an out-of-court settlement.)

*The claim was substantiated and payment was made.*

**5. An evaluation of the likelihood of unfavorable outcome.** (Choose one.)

**PROBABLE** – An unfavorable outcome is likely to occur.

**REASONABLY POSSIBLE** – the chance of an unfavorable outcome is less than probable but more than remote.

**REMOTE** – the chance of an unfavorable outcome is slight.

**6. An estimate of the amount or range of potential loss** (if one can be made, for losses considered to be probable or reasonably possible).

*\$1,344.24 has been paid.*

**7. The name and phone number of the government attorney handling the case** (and names and phone numbers of any outside legal counsel/other lawyers representing or advising the government in the matter.)

*Melissa Martin, Assistant General Counsel for General Law, (301) 504-7636*

**SUGGESTED DEPARTMENT OF JUSTICE FORM**

**PENDING OR THREATENED LITIGATION**

**AGENCY: Consumer Product Safety Commission**

**Amount of potential loss exceeds  
the agency/component materiality  
threshold of: \_\_\_\_\_**

**1. Case name.** (Include case citation, case number, and other names by which the case or group of cases is commonly known.)

*U.S. v. Purrington CV-04-577-S-BLW*

**2. Nature of matter.** (Include a description of the case or cases and **amount claimed**, if specified.)

*Injunction for violations of Federal Hazardous Substances Act, 15 U.S.C. 1261*

**3. Progress of the case.**

*Discovery/pretrial litigation*

**4. The government's response or planned response.** (For example, to contest the case vigorously or to seek an out-of-court settlement.)

*Not a defense case; no counter claim against the Government*

**5. An evaluation of the likelihood of unfavorable outcome.** (Choose one.) (REDACTED)

\_\_\_\_\_ PROBABLE – An unfavorable outcome is likely to occur.

\_\_\_\_\_ REASONABLY POSSIBLE – the chance of an unfavorable outcome is less than probable but more than remote.

\_\_\_\_\_ REMOTE – the chance of an unfavorable outcome is slight.

**6. An estimate of the amount or range of potential loss** (if one can be made, for losses considered to be probable or reasonably possible).

*Remote – Sanctions are always possible in litigation not probable to exceed 10,000.*

**7. The name and phone number of the government attorney handling the case** (and names and phone numbers of any outside legal counsel/other lawyers representing or advising the government in the matter.)

*Patricia Kennedy (REDACTED)*

**SUGGESTED DEPARTMENT OF JUSTICE FORM**

**PENDING OR THREATENED LITIGATION**

**AGENCY: Consumer Product Safety Commission**

**Amount of potential loss exceeds  
the agency/component materiality  
threshold of: \_\_\_\_\_**

**1. Case name.** (Include case citation, case number, and other names by which the case or group of cases is commonly known.)

*(REDACTED) v. CPSC, EEO No. 140-2005-00305x*

**2. Nature of matter.** (Include a description of the case or cases and **amount claimed**, if specified.)

*Applicant for employment claims his non-selection was due to discrimination based on age, gender, and disability. Seeks back pay (ca \$50,000) and unspecified compensatory damages.*

**3. Progress of the case.**

*In discovery; agency anticipates filing for summary judgment.*

**4. The government's response or planned response.** (For example, to contest the case vigorously or to seek an out-of-court settlement.)

*Agency will contest vigorously.*

**5. An evaluation of the likelihood of unfavorable outcome.** (Choose one.) (REDACTED)

\_\_\_\_\_ PROBABLE – An unfavorable outcome is likely to occur.

\_\_\_\_\_ REASONABLY POSSIBLE – the chance of an unfavorable outcome is less than probable but more than remote.

\_\_\_\_\_ REMOTE – the chance of an unfavorable outcome is slight.

**6. An estimate of the amount or range of potential loss** (if one can be made, for losses considered to be probable or reasonably possible).

**7. The name and phone number of the government attorney handling the case** (and names and phone numbers of any outside legal counsel/other lawyers representing or advising the government in the matter.)

*Margaret Plank, (REDACTED)*

**SUGGESTED DEPARTMENT OF JUSTICE FORM**

**PENDING OR THREATENED LITIGATION**

**AGENCY: Consumer Product Safety Commission**

**Amount of potential loss exceeds  
the agency/component materiality  
threshold of: \_\_\_\_\_**

**1. Case name.** (Include case citation, case number, and other names by which the case or group of cases is commonly known.)

*(REDACTED) v. CPSC, EEO No. 120-2005-00575x*

**2. Nature of matter.** (Include a description of the case or cases and **amount claimed**, if specified.)

*Applicant for employment claims his non-selection was due to discrimination based on race and national origin. Seeks back pay (ca \$10,000) and \$250,000 compensatory damages.*

**3. Progress of the case.**

*In discovery; agency anticipates filing for summary judgment.*

**4. The government's response or planned response.** (For example, to contest the case vigorously or to seek an out-of-court settlement.)

*Agency will contest vigorously.*

**5. An evaluation of the likelihood of unfavorable outcome.** (Choose one.) (REDACTED)

\_\_\_\_\_ PROBABLE – An unfavorable outcome is likely to occur.

\_\_\_\_\_ REASONABLY POSSIBLE – the chance of an unfavorable outcome is less than probable but more than remote.

\_\_\_\_\_ REMOTE – the chance of an unfavorable outcome is slight.



**6. An estimate of the amount or range of potential loss** (if one can be made, for losses considered to be probable or reasonably possible).

**7. The name and phone number of the government attorney handling the case** (and names and phone numbers of any outside legal counsel/other lawyers representing or advising the government in the matter.)

*Margaret Plank, (REDACTED)*

**SUGGESTED DEPARTMENT OF JUSTICE FORM**

**PENDING OR THREATENED LITIGATION**

**AGENCY: Consumer Product Safety Commission**

**Amount of potential loss exceeds  
the agency/component materiality  
threshold of: \_\_\_\_\_**

**1. Case name.** (Include case citation, case number, and other names by which the case or group of cases is commonly known.)

*(REDACTED)*

**2. Nature of matter.** (Include a description of the case or cases and **amount claimed**, if specified.)

*Violations of Federal Hazardous Substances Act, 15 USC 1261*

**3. The government's response or planned response.** (For example, to contest the case vigorously or to seek an out-of-court settlement.)

*Not a defense case/no anticipated counter-claim*

**4. An evaluation of the likelihood of unfavorable outcome.** (Choose one.) (REDACTED)

\_\_\_\_\_ PROBABLE – An unfavorable outcome is likely to occur.

\_\_\_\_\_ REASONABLY POSSIBLE – the chance of an unfavorable outcome is less than probable but more than remote.

\_\_\_\_\_ REMOTE – the chance of an unfavorable outcome is slight.

**5. An estimate of the amount or range of potential loss** (if one can be made, for losses considered to be probable or reasonably possible).

*Sanctions are always possible – not to exceed \$10,000.*

**6. The name and phone number of the government attorney handling the case** (and names and phone numbers of any outside legal counsel/other lawyers representing or advising the government in the matter.)

*Patricia Kennedy, (REDACTED)*

FISCAL YEAR 2005 ANNUAL FINANCIAL STATEMENTS

BALANCE SHEET  
FOR THE PERIOD ENDED SEPTEMBER 30, 2005

<b>Entity Assets:</b>	<b>2005</b>	<b>2004</b>
Intragovernmental Assets:		
Fund Balance with Treasury (Note 2)	\$ 10,089,918	\$ 9,007,352
Advances To Others (Note 3)	-	536
Accounts Receivable (Note 4)	25,050	9,490
Equipment (Note 5)	2,686,587	2,764,412
<b>Total Entity Assets</b>	<u>12,801,555</u>	<u>11,781,790</u>
<b>Non-Entity Assets:</b>		
Intragovernmental Assets:		
Fund Balance with Treasury	9,116,860	2,819,216
Accounts Receivable	1,755,650	1,022,107
<b>Total Non-Entity Assets</b>	<u>10,872,510</u>	<u>3,841,323</u>
<b>Total Assets</b>	<u>\$ 23,674,065</u>	<u>\$ 15,623,113</u>
<b>Liabilities:</b>		
Liabilities Covered by Budgetary Resources:		
Intragovernmental Liabilities:		
Accrued Benefits	\$ 2,599,947	\$ 1,567,698
Accounts Payable	397,328	319,357
<b>Total Liabilities Covered by Budgetary Resources</b>	<u>2,997,275</u>	<u>1,887,055</u>
Liabilities Not Covered by Budgetary Resources		
Intragovernmental Liabilities:		
Actuarial Federal Employees' Compensation Act Liabilities	371,661	314,437
Accrued Annual Leave	3,373,107	6,102,362
Imputed Cost	3,627,493	3,624,554
Unemployment Insurance	4,102	-
Other Liabilities (Note 6)	10,872,510	3,841,323
<b>Total Liabilities not Covered by Budgetary Resources</b>	<u>18,248,873</u>	<u>13,882,676</u>
<b>Total Liabilities</b>	<u>\$ 21,246,148</u>	<u>\$ 15,769,731</u>
<b>Net Position:</b>		
Balances		
Unexpended Appropriations	7,092,643	7,120,297
Cumulative Results of Operations	(4,664,726)	(7,266,915)
<b>Total Net Position</b>	<u>2,427,917</u>	<u>(146,618)</u>
<b>Total Liabilities and Net Position</b>	<u>\$ 23,674,065</u>	<u>\$ 15,623,113</u>

STATEMENT OF NET COST  
FOR THE PERIOD ENDED SEPTEMBER 30, 2005

<b>Costs:</b>	<u>2005</u>	<u>2004</u>
Intragovernmental/Public Gross Costs		
Benefits Expenses	\$ 5,487,756	\$ 5,396,595
Operating Expenses	59,225,008	57,299,302
Unfunded Annual Leave	3,373,107	6,102,362
Imputed cost	3,627,493	3,624,554
Unemployment Insurance	4,102	
Federal Employees Compensation Fund	371,661	314,437
Total Gross Costs	<u>72,089,127</u>	<u>72,737,250</u>
Less: Earned Revenue		
Intragovernmental Earned Revenue	(2,769,775)	(2,802,222)
Donated Revenue	(13,315)	(2,891)
Earned revenues from the Public	(59,045)	(167,223)
Total Revenues	<u>(2,842,135)</u>	<u>(2,972,336)</u>
<b>Total Net Costs</b>	<u><u>\$ 69,246,992</u></u>	<u><u>\$ 69,764,914</u></u>

STATEMENT OF CHANGES IN NET POSITION  
FOR THE PERIOD ENDED SEPTEMBER 30, 2005

	2005		2004	
	Cumulative Results of Operations	Unexpended Appropriations	Cumulative Results of Operations	Unexpended Appropriations
<b>Net Position, Beginning Balance</b>	\$ (7,266,915)	\$ 7,120,297	\$ (6,531,914)	\$ 8,066,853
<b>Budgetary Financing sources:</b>				
Appropriations Received	-	62,650,000	-	60,000,000
Reimbursement Received	(2,769,775)	2,769,775	(2,802,222)	2,802,222
Rescission		(501,200)	-	(354,000)
Advances To Others	-	-	536	-
Accounts Receivable	25,050		9,490	
Donated Revenue	(13,315)	13,315	(2,891)	2,891
Appropriations Used	64,575,894	(64,575,894)	63,036,573	(63,036,573)
Increase cost in capitalize equipment	378,574	-	52,991	-
Cancellation of expired year	-	(383,650)	-	(361,096)
Decrease prior year unfunded cost	10,031,327	-	8,788,427	-
<b>Total Financing Sources</b>	72,227,755	(27,654)	69,082,904	(946,556)
<b>Net Cost of Operations</b>	(69,246,992)		(69,764,914)	
<b>Prior Period Adjustment</b>	(378,574)		(52,991)	
<b>Ending Balances</b>	\$ (4,664,726)	\$ 7,092,643	\$ (7,266,915)	\$ 7,120,297

COMBINED STATEMENT OF BUDGETARY RESOURCES  
FOR THE PERIOD ENDED SEPTEMBER 30, 2005

<b>Budgetary Resources:</b>	<u>2005</u>	<u>2004</u>
Budget authority:		
Appropriation received	\$ 62,650,000	\$ 60,000,000
Unobligated balances-beginning of period	951,041	546,857
Spending authority from offsetting collections	2,842,135	2,972,335
Recoveries of prior year obligations	748,259	1,187,094
Cancellation of expired year	(383,650)	(361,096)
Rescission	(501,200)	(354,000)
<b>Total Budgetary Resources</b>	<u>\$ 66,306,585</u>	<u>\$ 63,991,190</u>
<b>Status of Budgetary Resources:</b>		
Obligations incurred	65,278,237	63,040,149
Unobligated balances currently available	95,332	63,702
Unobligated balances not available	933,016	887,339
<b>Total Status of Budgetary Resources</b>	<u>\$ 66,306,585</u>	<u>\$ 63,991,190</u>
<b>Outlays:</b>		
Obligations incurred	65,278,237	63,040,149
Less: Spending authority from offsetting collections and adjustments	(3,590,395)	(4,159,429)
Obligated balance, net - beginning of period	8,056,311	8,929,454
Less: Obligated balance, net - end of period	(9,061,570)	(8,056,311)
<b>Total Outlays</b>	<u>\$ 60,682,583</u>	<u>\$ 59,753,863</u>

STATEMENT OF FINANCING  
FOR THE PERIOD ENDED SEPTEMBER 30, 2005

<b>Resources Used to Finance Activities</b>	<b>2005</b>	<b>2004</b>
Budgetary Resources Obligated		
Obligations incurred	\$ 65,278,237	\$ 63,040,149
Less: Collections	(2,842,135)	(2,972,336)
Less: Adjustment-downward	(748,259)	(1,187,093)
Net Obligations	<u>61,687,843</u>	<u>58,880,720</u>
Other Resources		
Obligations-Beginning of the Period	8,056,311	8,929,454
Imputed Cost	<u>3,627,493</u>	<u>3,624,554</u>
<b>Total Resources Used to Finance Activities</b>	73,371,647	71,434,728
<b>Resources Not Funding Net Cost of Operations</b>		
Total Capitalized costs	(744,109)	(861,333)
Other/Accrual/Accounts Payable prior year	(1,887,055)	(1,409,558)
Change in Undelivered Orders	(6,064,295)	(6,169,255)
<b>Total Resources Used to Finance the Net Cost of Operations</b>	<u>\$ 64,676,188</u>	<u>\$ 62,994,582</u>
<b>Total Cost not Requiring Resources</b>		
Depreciation	821,934	353,533
<b>Financing Sources Yet to be provided</b>		
Actuarial Federal Employees' Compensation Act Liabilities	371,661	314,437
Unfunded Annual Leave	3,373,107	6,102,362
Unemployment Insurance	4,102	-
<b>Net Cost of Operations</b>	<u>\$ 69,246,992</u>	<u>\$ 69,764,914</u>



STATEMENT OF CUSTODIAL ACTIVITY  
FOR THE PERIOD ENDED SEPTEMBER 30, 2005

<b>Gross Revenue Activity</b>	<u>2005</u>	<u>2004</u>
Sources of Cash Collections:		
Civil Penalties and Fines	\$ 9,107,885	\$ 2,811,203
FOIA and Misc collections	8,975	8,013
Fees Collected-DOJ	<u>6,471</u>	<u>3,947</u>
<b>Total Custodial Revenue</b>	9,123,331	2,823,163
Disposition of Revenue Collected:		
Amounts to be Transferred to:		
Treasury General Fund	9,116,860	2,819,216
Retained by Justice Department-Fees	6,471	3,947
<b>Net Custodial Activity</b>	<u>\$ -</u>	<u>\$ -</u>

## 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 three 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 authorizes CPSC to:

- Develop voluntary standards with industry
- Issue and enforce mandatory standards
- Obtain recall of products or arranging for their repair
- Conduct research on potential product hazards
- Inform and educate consumers through the media, state and local governments, private organizations, and by responding to 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, financing and custodial activities of the CPSC, in accordance with accounting principles generally accepted in the United States of America and the form and content requirements of OMB Bulletin 01-09. They have been prepared from the books and records of the CPSC and include the accounts of all funds under the control of the CPSC.

Accounting principles generally accepted in the United States of America 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.

### **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. Advances are principally advances to CPSC employees for official government business.

### **Accounts Receivable**

Entity accounts receivables include amounts due from 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 non entity these 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 over two 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 exist 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 6.

### **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 costs related to these benefits on the Balance Sheet, the Statement of Net Cost, and the Statement of Financing.

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 10 percent of earnings for 2005 but do not receive a matching contribution from the CPSC. FERS participating employees may contribute up to 15 percent for 2005. 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 (FEGGLIP). The CPSC matches the employee contributions to each program to pay for current benefits.

## Net Position

The CPSC's net position is composed 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 cumulative obligations from the amount available for obligation.
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 are considered 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. Following are revenue and financing sources for CPSC with an indication of whether the revenue is exchange, nonexchange revenue, or a 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 \$2.7 million in 2005. The CPSC's reimbursable agreements are with the following trading partners: the Center for Disease Control, Federal Emergency Management Agency, HHS and the Health Resources and Services Administration. The majority of these agreements are for CPSC to utilize its hospital reporting system to collect injury data, self-inflicted violence, adverse events due to therapeutic drugs (ADEs), and conduct research into improvements to residential smoke alarm and detectors of interest to the trading partners.

Annual Appropriations (Financing Source) – The CPSC receives financing sources through direct appropriation from the general fund of the Treasury to support its operations. The annual appropriation available for 2005 was \$62,148,800.

## Transactions with Related Parties

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

delivered or services rendered.

## Note 2 – Fund Balance with Treasury

Fiscal Year 2005

	Entity	Non-Entity	Total
General Funds	\$10,089,918		\$10,089,918
Miscellaneous Receipts		\$8,975	8,975
Fines and Penalties		\$9,107,885	\$9,107,885
<b>Total</b>	\$10,089,918	\$9,116,860	\$19,206,778

Status of Fund Balance with Treasury:

	Not Available	Obligated	Unobligated Available	Total
Entity	\$933,016	\$9,061,570	\$95,332	\$10,089,918
Non-Entity:				
Miscellaneous Receipts	\$8,975			\$8,975
Fines and Penalties	\$9,107,885			\$9,107,885
<b>Total</b>	\$10,049,876	\$9,061,570	\$95,332	\$19,206,778

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

Other Information. Miscellaneous Receipts and Fines and Penalty balances amounting to \$8,975 and \$9,107,885, respectively, are not available to CPSC activities and are classified as non-entity assets. A corresponding liability is also recorded on the balance sheet.

## Note 3 – Cash and Other Monetary Assets

Cash and Other Monetary Assets consist of outstanding travel advances.

## Note 4 – Accounts Receivable

The CPSC's entity receivables of \$25K are due from CPSC employees. These receivables are balances owed the Agency due to payroll adjustments. These are current receivables in which employees are making installment payments to repay the debt. CPSC's non-entity receivables are composed of Civil Fines and Penalties and Freedom of Information Act activity. CPSC maintains these accounts in a custodial capacity.

## Note 5 – Property, Plant & Equipment (PP&E)

**Fiscal Year 2005**

Classes of PP&E	Acquisition Cost	Accumulated Depreciation	Net Book Value	Service Life in Years
Equipment	\$7,558,803	( \$5,366,750)	\$2,192,053	5-12
ADP Software	\$950,945	( \$456,411)	\$494,534	5
<b>Total</b>	<b>\$8,509,748</b>	<b>(\$5,823,161)</b>	<b>\$2,686,587</b>	

**Note 6 – Other Liabilities**

Other liabilities are composed of receivables and collections for Civil Penalties and Fines, and Freedom of Information Act (FOIA) fees. These balances reflect Treasury's balance on the FMS-6655, Report of Unavailable Receipt Transactions, as of 9-30-05. CPSC maintains these accounts in a custodial capacity.

## REQUIRED SUPPLEMENTARY INFORMATION

### **Deferred Maintenance**

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

### **Intragovernmental Amounts**

See Note 2 on financial statements.

### **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.

### **Segment Information**

CPSC does not have a franchise fund or other intragovernmental support revolving fund.



CONTRIBUTING STAFF

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