
**United States Chemical Safety and Hazard
Investigation Board**

Audit of Financial Statements

**As of and for the Years Ended
September 30, 2003 and 2004**

Submitted By

Leon Snead & Company, P.C.
Certified Public Accountants & Management Consultants

TABLE OF CONTENTS

Independent Auditor’s Report.....	1
Chemical Safety and Hazard Investigation Board Management’s Discussion and Analysis	6
Financial Statements	12
Balance Sheet.....	12
Statement of Net Cost	13
Statement of Changes in Net Position	14
Statement of Financing	15
Statement of Budgetary Resources	17
Notes to the Financial Statements.....	18



416 Hungerford Drive, Suite 400
Rockville, Maryland 20850
301-738-8190
fax: 301-738-8210
leonsnead.companypc@erols.com

Inspector General, United States Chemical Safety and Hazard Investigation Board
Chairperson, United States Chemical Safety and Hazard Investigation Board

Independent Auditor's Report

We have audited the balance sheets of the Chemical Safety and Hazard Investigation Board (CSB), as of September 30, 2003 and 2004, and the related statements of net cost, changes in net position, budgetary resources, and financing (the financial statements) for the years then ended. The objective of our audits was to express an opinion on the fair presentation of those financial statements. In connection with our audit, we also considered the internal control over financial reporting, and tested the CSB's compliance with certain provisions of applicable laws and regulations that could have a direct and material effect on its financial statements.

SUMMARY

As stated in our opinion on the financial statements, we found that CSB's financial statements, as of and for the years ended September 30, 2003 and 2004, are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America.

Our consideration of internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses under standards issued by the American Institute of Certified Public Accountants. However, we noted no material weaknesses involving the internal control over financial reporting.

The results of our tests of compliance with certain provisions of laws and regulations disclosed no instances of noncompliance that are required to be reported herein under *Government Auditing Standards*, issued by the Comptroller General of the United States, and Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*.

The following sections discuss our opinion on the CSB's financial statements, our consideration of the CSB's internal control over financial reporting, our tests of the CSB's compliance with certain provisions of applicable laws and regulations, and management's and our responsibilities.

OPINION ON THE FINANCIAL STATEMENTS

We have audited the accompanying balance sheets of the CSB, as of September 30, 2003 and 2004, and the related statements of net cost, changes in net position, budgetary resources, and financing for the years then ended.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position, net cost, changes in net position, budgetary resources, and financing of the CSB, as of and for the years ended September 30, 2003 and 2004, in conformity with accounting principles generally accepted in the United States of America.

The information in the Management's Discussion and Analysis section is not a required part of the financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America, or OMB Bulletin No. 01-09, *Form and Content of Agency Financial Statements*. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information, and analysis of the information for consistency with the financial statements. However, we did not audit the information and, accordingly, we express no opinion on it.

INTERNAL CONTROL OVER FINANCIAL REPORTING

Our consideration of the internal control would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. Under standards issued by the American Institute of Certified Public Accountants, reportable conditions are matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the agency's ability to record, process, summarize, and report financial data consistent with the assertions by management in the financial statement. Material weaknesses are reportable conditions in which the design or operation of one or more of the internal control components does not reduce, to a relatively low level, the risk that misstatements caused by error or fraud, in amounts that would be material in relation to the financial statements being audited, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Because of inherent limitations in internal controls, misstatements, losses, or noncompliance may nevertheless occur and not be detected.

We noted no matters involving the internal control and its operation that we considered to be material weaknesses as defined above. However, we noted another matter involving internal control that we have reported to the management of CSB in a separate letter dated October 22, 2004.

COMPLIANCE WITH LAWS AND REGULATIONS

The results of our tests of compliance with certain provisions of laws and regulations, as described in the Responsibilities section of this report, disclosed no instances of noncompliance with laws and regulations that are required to be reported under *Government Auditing Standards*, and OMB Bulletin No. 01-02.

RESPONSIBILITIES

Management Responsibilities

Management of the CSB 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* (FMFIA) are met; and (3) complying with applicable laws and regulations. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control policies.

Auditor Responsibilities

Our responsibility is to express an opinion on the fiscal year 2003 and 2004 financial statements based on our audits. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and OMB Bulletin No. 01-02. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit includes: (1) examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; (2) assessing the accounting principles used and significant estimates made by management; and (3) evaluating that our audits provide a reasonable basis for our opinion. We believe our audits provide a reasonable basis for our opinion.

In planning and performing our audit, we considered the CSB's internal control over financial reporting by obtaining an understanding of the agency's internal control, determining whether internal controls had been placed in operation, assessing control risk, and performing tests of controls in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements.

We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin No. 01-02 and *Government Auditing Standards*. We did not test all internal controls relevant to operating objectives as broadly defined by FMFIA. The objective of our audit was not to provide assurance on internal control over financial reporting. Consequently, we do not express an opinion, thereon.

As required by OMB Bulletin No. 01-02, with respect to internal control related to performance measures determined by management to be key and reported in Management's Discussion and Analysis, we obtained an understanding of the design of significant internal controls relating to the existence and completeness assertions. Our procedures were not designed to provide assurance on internal control over reported performance measures, and, accordingly, we do not provide an opinion thereon.

As part of obtaining reasonable assurance about whether CSB's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and significant provisions of contracts, which could have a direct and material effect on the determination of financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 01-02. We limited our tests of compliance to the provisions described in the preceding sentence, and we did not test compliance with all laws and regulations applicable to the CSB. Providing an opinion on compliance with certain provisions of laws, and regulations was not an objective of our audit and, accordingly, we do not express such an opinion.

Under OMB Bulletin No. 01-02, auditors are generally required to report whether the agency's financial management systems substantially comply with the Federal financial management systems requirements, applicable Federal accounting standards, and the United States Government Standard General Ledger at the transaction level specified in *Federal Financial Management Improvement Act* (FFMIA). The Accountability of Tax Dollars Act, which requires CSB to prepare and submit audited financial statements to Congress, and the Director of OMB, did not extend to CSB the requirement to comply with

ently, we did not test, nor are we reporting on, the CSB's compliance

FFMIA. Consequ
with FFMIA.

TS AND AUDITOR EVALUATIONS

AGENCY COMMENT

findings and recommendations in this report, no written comments were
y officials.

Since there are no
provided by agenc

DISTRIBUTION

ended solely for the information and use of the management of CSB, the
r General of the CSB, OMB, and Congress, and is not intended to be and
by anyone other than these specified parties.

This report is inte
Office of Inspecto
should not be used

COMPANY, PC
pany, P.C.

Leon Snead
Leon Snead & Co
October 22, 2004

MESSAGE FROM THE CHAIRMAN

The U.S. Chemical Safety and Hazard Investigation Board (CSB) had its busiest and most productive year in fiscal year (FY) 2004. The CSB completed eight safety products this fiscal year, including four full investigations, two case study reports, and two safety bulletins. In addition, the Board began seven new investigations.

In FY 2004 the CSB achieved probably the most noteworthy safety success in its nearly seven-year history. On September 30, 2003, meeting in New York City, the Board voted to recommend that New York City modernize the control of hazardous materials under its existing 86-year-old municipal fire code. The recommendation followed an 18-month CSB investigation of a chemical accident in downtown Manhattan, where at least 36 people were injured when hazardous chemicals — improperly mixed in the basement of a commercial building — exploded and caused the building to partially collapse.

Board representatives testified twice before the New York City Council on the findings of the CSB investigation, and in March 2004 the city announced that it would completely overhaul its fire code over the next few years. This process is expected to lead to the city's adoption of an accepted model code, like the International Fire Code or the National Fire Protection Association code. At the end of this process, eight million New Yorkers will be considerably safer from chemical accident hazards — a striking proof of the value of CSB's independent, root-cause investigations.

With these solid accomplishments, I am pleased to present the CSB's FY 2004 Performance and Accountability Report. This report outlines the progress we made in FY 2004 and presents our operations based on reliable and complete financial and performance data.

In addition to transparent reporting, the CSB is cognizant of the importance of establishing and maintaining adequate controls for the programs and administrative functions for which it is responsible. Based on internal and external evaluations, and knowledge gained from daily operations, I am able to certify with reasonable assurance that, with the exception of any items identified in "Systems, Controls, and Legal Compliance" and the Independent Auditors' Reports on the FY 2004 financial statements, the Board is in compliance with the provisions of the Federal Manager's Financial Integrity Act.



Carolyn W. Merritt
Chairman

October 21, 2004

CSB is headquartered in Washington, DC. As of September 30, 2004, there were four appointed Board members, including the Chairman and a professional staff of 36. This discussion and analysis provides a concise overview of CSB. For detailed information visit our website at www.csb.gov.

Mission and Organizational Structure

The mission of the Chemical Safety Board is to investigate chemical accidents and hazards and to recommend actions to protect workers, the public and the environment. Our independent, scientific investigations support efforts by government, industry, and labor to prevent chemical accidents.

The CSB is governed by its Board, which consists of five members appointed by the President and confirmed by the Senate. One of the Board members serves as the Chairman and Chief Executive Officer (CEO) of the agency.

Performance Goals, Objectives, and Results

In continuing our work towards our mission to promote the prevention of chemical accidents, the CSB developed an action plan for FY 2004. The specific goals of the action plan were:

- **Mission Goal #1:** Produce timely, high quality investigation reports, bulletins and studies and use them as a basis for effective prevention recommendations.
- **Mission Goal #2:** Achieve wide industry implementation of CSB recommendations and related accident prevention measures.
- **Enabling Goal #3:** Maintain a high-performing work environment to ensure effective mission accomplishment.

Mission Goal #1 Accomplishments

In FY 2004, the CSB continued to emphasize investigations and safety. During FY 2004, CSB completed the following four major incident investigations:

- **West Pharmaceutical Services.** On January 29, 2003, an explosion and fire destroyed the West Pharmaceutical Services plant in Kinston, North Carolina, causing 6 deaths, 38 injuries, and hundreds of job losses. CSB investigators found that the fuel for the explosion was a fine plastic powder used in producing rubber goods, and determined four root causes of the accident: the company's inadequate engineering assessment for combustible powders, inadequate consultation with fire safety standards, lack of appropriate review of material safety data sheets, and inadequate communication of dust hazards to workers. The CSB called on North Carolina to adopt National Fire Code controls on combustible dust for industrial facilities statewide, and to identify the industries at risk for combustible dust

explosions and conduct an educational outreach program to help prevent future accidents.

- Technic Inc. On February 7, 2003, a violent chemical reaction occurred inside a vent collection system used to carry waste gases and particulates to a pollution control device at Technic Inc. in Cranston, Rhode Island. The resulting explosion and fire critically injured one employee, sent 18 others to the hospital for medical evaluation, and prompted an evacuation of the surrounding community. The CSB found that the company did not review hazards when it installed the vent collection system handling exhaust from multiple processes. Further, the company did not have a system for identifying hazards when making modifications to facility processes and equipment – referred to in the chemical industry as management of change. The CSB urged the company to implement formal process safety review procedures and emphasized the need for industrial safety organizations to provide companies with additional guidance on how to evaluate potential incompatibilities when chemicals are intermixed in ventilation systems.
- D.D. Williamson. On April 11, 2003, over-pressurization of an eight-foot-tall food additive processing tank caused an explosion that took the life of an employee at the D.D. Williamson & Co. plant in Louisville, Kentucky. Further, the tank shell struck a nearby ammonia tank, resulting in the release of aqua ammonia (ammonia gas in a water solution), forcing the evacuation of 26 residents and requiring 1,500 others to remain sheltered in their homes. The CSB determined the accident could have been prevented had the company installed an emergency pressure relief valve on the processing tank. The CSB also noted that the tank that exploded had a history of prior damage.
- First Chemical Corporation. On October 13, 2002, a violent explosion occurred in a chemical distillation tower at First Chemical Corporation in Pascagoula, Mississippi, sending heavy debris over a wide area. Three workers in the control room were injured by shattered glass. The CSB concluded that the explosion occurred because First Chemical Corporation had not effectively evaluated the hazards of a chemical process and that plant operators were unaware that a dangerous chemical reaction was taking place inside the tower. The CSB recommended that the facility improve its hazard analyses, conduct process safety audits, and install appropriate warning devices.

In FY 2004 the CSB also completed two case studies and two safety bulletins. The first case study examined a runaway chemical reaction that produced large volumes of gas under high pressure at a company in Gnadenuhnten, Ohio. The CSB noted the likely underlying cause of the accident was that management had not put in place a proper hazard identification system. The next case study examined the causes of a Sept. 21, 2003, nitric oxide leak and explosion which occurred at a high-technology biochemical products plant in Miami Township, Ohio. The CSB urged zoning, planning, and permitting authorities to evaluate public risks from pre-existing chemical facilities. The CSB also called on governing authorities to use public awareness campaigns to inform communities of actions to take in an emergency, and to train emergency responders in evacuation plans. The

safety bulletins warned of the dangers of sodium hydrosulfide and recommended safe practices to prevent accidents when handling the chemical, and called on chemical plant and refinery operators to exercise appropriate caution when performing work on piping and equipment that could contain hazardous materials.

In addition to these activities, CSB launched seven new incident investigations in FY 2004. The CSB is investigating the explosion and fire that heavily damaged the Formosa Plastics plant in Illiopolis, Illinois, on April 23, 2004. That explosion killed five workers and caused the complete shut down of the facility, which had been a major source of jobs in the region. The Board also began investigations of a refinery explosion near Gallup, New Mexico; a toxic vapor release and evacuation in Dalton, Georgia; a chlorine leak and evacuation in Glendale, Arizona; a fatal aluminum dust explosion in Huntington, Indiana; and an ethylene oxide explosion that heavily damaged a sterilization facility in Ontario, California. Finally, the Board decided to launch a special investigation on chemical dust hazards based on incidents investigated in FY 2004. This study will be a major focus of the Board's FY 2005 activities.

Mission Goal #2 Accomplishments

Investigation report recommendations are CSB's principal tool for promoting chemical safety. Each recommendation has one or more specific recipients, who are the parties best able to carry out the recommended action to improve safety. Once CSB has issued a recommendation, CSB recommendations staff encourages implementation and tracks completion. The staff ensures that the recommendation is effectively communicated to the recipient(s), together with any needed justification or explanation. In FY 2004, the CSB issued a total of 41 recommendations.

In order to improve timeliness for closing recommendations, the CSB established an Office of Recommendations and hired a Recommendations Director. The staff meets periodically with recipients as appropriate to encourage positive action. In due course, staff evaluates recipients' compliance and advises the Board members concerning closure of the recommendations. In FY 2004 we closed eleven recommendations. Two of these recommendations were closed as exceeding the CSB's recommended actions in a CSB report on reactive hazards. The Center for Chemical Process Safety (CCPS) not only published guidance on reactive hazards as recommended but formed a partnership with industry and government to widely disseminate the guidance without charge through the websites of the Occupational Safety and Health Administration and the Environmental Protection Agency. In response to another recommendation, the CCPS communicated the hazard report's finding to its members by holding conferences and meetings of its members on reactive hazards and publishing a paper by CSB investigators in its journal, reaching its 50,000 members.

The CSB continued to conduct community meetings and public hearings to inform the communities affected by chemical incidents of the progress of our investigations and to respond to the concerns of workers, the public, and business owners. The meetings allowed interested parties to hear our preliminary findings before we start developing our recommendations. These sessions also allowed the Board to hear from workers and the

community regarding any issues of concern. The CSB also continued to produce the highly popular digest versions of investigation reports, and as a new initiative, began to produce Spanish versions of the digests to allow for broader dissemination. Along with these Board actions, individual Board members and staff disseminated the recommendations and findings from our investigations throughout the country, giving dozens of presentations to business, labor, and public interest groups.

Enabling Goal #3 Accomplishments

The CSB's strategic plan for FY's 2004 through 2008 continues to recognize that high performing employees are essential to accomplishing our mission. The plan builds on the foundation work that has been completed in this area and focuses the CSB on improving the training, performance, productivity, and satisfaction of its current workforce.

In FY 2004 the staff completed individual development plans and developed individual work plans that tied to the CSB's strategic plan. The CSB also provided Management Training and Situational Leadership Training to its investigation supervisors to improve their performance in these critical areas. Finally, the CSB provided Project Management Training to investigators to improve their performance and productivity while managing multiple investigations and other projects.

In addition to providing important training, the CSB established several significant programs in FY 2004. The first was a Federal Career Intern Program, which allowed us to hire four entry-level professionals. The CSB also implemented a telecommuting program that will allow employees to work on projects from home with prior approval from their supervisor.

Challenges

Investigations are very labor intensive. Thus for the next few fiscal years our challenge will be to develop our investigative and technical staff, which should allow CSB to conduct more investigations and to issue reports faster. The CSB will also need to establish effective relationships with key stakeholders who can disseminate accident prevention information and effect improvements in the system of safety.

Analysis of Financial Statements

CSB's financial statements have been prepared to report the financial position and results of operations of CSB, pursuant to the requirements of the Accountability of Tax Dollars Act of 2002. The principal financial statements include the Balance Sheet, Statement of Net Cost, Statement of Changes in Net Position, Statement of Budgetary Resources, and Statement of Financing. The following chart summarizes the CSB's budget and outlays since it began operations in FY 1998.

**CSB's Budget and Outlays
(Dollars in Thousands)**

Fiscal Year	Budget	Outlays
2004	\$8,201*	\$7,791
2003	7,808	8,217
2002	7,844	6,671
2001	7,484	6,804
2000	7,970	5,907
1999	6,500	5,371
1998	4,000	2,405

We note that the CSB's first full financial audit was conducted for FY 2001. Our financial statements for this and subsequent fiscal years received unqualified opinions, meaning our statements were fairly presented and free from material misstatements.

Limitations of the Financial Statements

While the statements have been prepared from CSB's books and records conformity with accounting principles generally accepted in the United States of America and formats prescribed by the Office of Management and Budget, the statements are different from the financial reports used to monitor and control budgetary resources which are prepared from the same books and records.

These statements should be read with the understanding that CSB is a component of the United States Government, that liabilities not covered by budgetary resources cannot be liquidated without the enactment of an appropriation, and that the Federal Government can abrogate the payment of all liabilities other than for contracts. CSB outsourced a major portion of its accounting function to the Bureau of the Public Debt, which prepared the financial statements.

Systems, Controls, and Legal Compliance

CSB is cognizant of the importance of establishing and maintaining adequate controls for the programs and administrative functions for which it is responsible. Our management is developing, implementing, evaluating, and modifying our controls to provide reasonable assurance that we have adequate accountability of our resources. In addition, given the small size of CSB, we decided to obtain accounting, personnel, and procurement services from an outside source to provide another level of controls.

Based on internal and external evaluations, and knowledge gained from daily operations, our controls provide reasonable assurance that our resources are safeguarded and properly

* Excludes \$447,000 no-year Emergency Fund, which was provided for the first time in FY 2004 to be a funding mechanism for investigation cost fluctuations. None of this funding was used in FY 2004.

managed. CSB Board members and managers will continue to emphasize the importance of internal controls, and evaluate and enhance them as necessary.

**UNITED STATES CHEMICAL SAFETY
AND HAZARD INVESTIGATION BOARD**

FINANCIAL STATEMENTS

**FOR THE YEARS ENDED
SEPTEMBER 30, 2004 AND 2003**

**UNITED STATES CHEMICAL SAFETY
AND HAZARD INVESTIGATION BOARD
BALANCE SHEET**

As of September 30, 2004 and 2003

(In Dollars)

	2004	2003
ASSETS		
Intragovernmental:		
Fund Balance With Treasury (Note 2)	\$ 3,290,959	\$ 2,811,808
Total Intragovernmental	3,290,959	2,811,808
General Property, Plant and Equipment, Net (Note 3)	768,166	982,127
Other (Note 4)	59,000	59,358
Total Assets	\$ 4,118,125	\$ 3,853,293
 LIABILITIES		
Intragovernmental:		
Other (Note 6)	\$ 14,860	\$ 22,315
Total Intragovernmental	14,860	22,315
Accounts Payable (Note 6)	131,252	438,836
Other (Note 6)	676,700	553,401
Total Liabilities	\$ 822,812	\$ 1,014,552
 NET POSITION		
Unexpended Appropriations (Note 9)	\$ 2,779,739	\$ 2,301,922
Cumulative Results of Operations (Note 9)	515,574	536,819
Total Net Position	\$ 3,295,313	\$ 2,838,741
Total Liabilities and Net Position	\$ 4,118,125	\$ 3,853,293

The accompanying notes are an integral part of these statements.

**UNITED STATES CHEMICAL SAFETY
AND HAZARD INVESTIGATION BOARD
STATEMENT OF NET COST
For the Years Ended September 30, 2004 and 2003
(In Dollars)**

	<u>2004</u>	<u>2003</u>
PROGRAM COSTS		
Intragovernmental Gross Costs	\$ 1,801,063	\$ 1,494,334
Intragovernmental Net Costs	<u>\$ 1,801,063</u>	<u>\$ 1,494,334</u>
Gross Costs With the Public	\$ 6,548,189	\$ 7,468,493
Net Costs With the Public	<u>\$ 6,548,189</u>	<u>\$ 7,468,493</u>
Total Net Cost	<u>\$ 8,349,252</u>	<u>\$ 8,962,827</u>
Net Cost Of Operations	<u><u>\$ 8,349,252</u></u>	<u><u>\$ 8,962,827</u></u>

The accompanying notes are an integral part of these statements.

**UNITED STATES CHEMICAL SAFETY
AND HAZARD INVESTIGATION BOARD
STATEMENT OF CHANGES IN NET POSITION
For the Years Ended September 30, 2004 and 2003
(In Dollars)**

	2004 Cumulative Results Of Operations	2004 Unexpended Appropriations	2003 Cumulative Results Of Operations	2003 Unexpended Appropriations
Beginning Balances	\$ 536,819	\$ 2,301,922	\$ 938,544	\$ 4,377,874
Beginning Balances, as Adjusted	\$ 536,819	\$ 2,301,922	\$ 938,544	\$ 4,377,874
Budgetary Financing Sources				
Appropriations Received		\$ 8,700,000		\$ 6,450,000
Other Adjustments (recissions, etc)		(429,916)		(203,977)
Appropriations Used	\$ 7,792,267	\$ (7,792,267)	\$ 8,321,975	(8,321,975)
Other Financing Sources				
Imputed Financing from Costs Absorbed by Others	535,740		239,127	
Total Financing Sources	\$ 8,328,007	\$ 477,817	\$ 8,561,102	\$ (2,075,952)
Net Cost of Operations	\$ 8,349,252		\$ 8,962,827	
Ending Balances	\$ 515,574	\$ 2,779,739	\$ 536,819	\$ 2,301,922

The accompanying notes are an integral part of these statements.

**UNITED STATES CHEMICAL SAFETY
AND HAZARD INVESTIGATION BOARD
STATEMENT OF BUDGETARY RESOURCES
For the Years Ended September 30, 2004 and 2003
(In Dollars)**

	2004	2003
BUDGETARY RESOURCES		
Budget Authority		
Appropriations	\$ 8,700,000	\$ 6,450,000
Unobligated Balance		
Beginning of Period	1,227,821	2,206,465
Subtotal	\$ 9,927,821	\$ 8,656,465
Actual Recoveries of Prior-Year Obligations	\$ 748,545	\$ 640,929
Permanently Not Available		
Cancelled Authority	(378,586)	(162,052)
Enacted Rescissions	(51,330)	(41,925)
TOTAL BUDGETARY RESOURCES	\$ 10,246,450	\$ 9,093,417

**STATUS OF BUDGETARY
RESOURCES**

Obligations Incurred:		
Direct	\$ 8,770,533	\$ 7,865,596
Subtotal	\$ 8,770,533	\$ 7,865,596
Unobligated Balance:		
Apportioned	518,057	334,323
Unobligated Balance Not Available	957,859	893,498
TOTAL STATUS OF BUDGETARY RESOURCES	\$ 10,246,450	\$ 9,093,417

The accompanying notes are an integral part of these statements.

RELATIONSHIP OF OBLIGATIONS TO OUTLAYS

Obligated Balance, Net, Beginning of Period	\$ 1,583,988	\$ 2,575,956
Obligated Balance, Net, End of Period:		
Undelivered Orders	1,244,822	1,015,101
Accounts Payable	570,220	568,886
Outlays:		
Disbursements	7,790,932	8,216,636
Subtotal	<u>\$ 7,790,932</u>	<u>\$ 8,216,636</u>
Net Outlays	<u>\$ 7,790,932</u>	<u>\$ 8,216,636</u>

The accompanying notes are an integral part of these statements.

**UNITED STATES CHEMICAL SAFETY
AND HAZARD INVESTIGATION BOARD
STATEMENT OF FINANCING**

For the Years Ended September 30, 2004 and 2003

(In Dollars)

	2004	2003
RESOURCES USED TO FINANCE ACTIVITIES		
Budgetary Resources Obligated		
Obligations Incurred	\$ 8,770,533	\$ 7,865,596
Less: Spending Authority from Offsetting Collections and Recoveries	(748,545)	(640,929)
Obligations Net of Offsetting Collections and Recoveries	\$ 8,021,988	\$ 7,224,667
Other Resources		
Imputed Financing from Costs Absorbed by Others	\$ 535,740	\$ 239,127
Net Other Resources Used to Finance Activities	\$ 535,740	\$ 239,127
 Total Resources Used to Finance Activities	 8,557,728	 \$ 7,463,794
 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	\$ (229,721)	\$ 1,097,308
Resources That Fund Expenses Recognized in Prior Periods	(199,642)	
Resources That Finance the Acquisition of Assets	(10,200)	(100,553)
Total Resources Used to Finance Items Not Part of the Net Cost of Operations	(439,563)	\$ 996,755
 Total Resources Used to Finance the Net Cost of Operations	 \$ 8,118,165	 \$ 8,460,549
 COMPONENTS OF THE NET COST OF OPERATIONS THAT WILL NOT REQUIRE OR GENERATE RESOURCES IN THE CURRENT PERIOD		
Components Requiring or Generating Resources in Future Periods		
Increase in Annual Leave Liability	\$ 6,926	\$ 51,927
Total Components of Net Cost of Operations That will not Require or Generate Resources in the Current Period	\$ 6,926	\$ 51,927
 Components Not Requiring or Generating Resources		
Depreciation and Amortization	224,161	250,709
Other		199,642
Total Components of Net Cost of Operations That will not Require or Generate Resources	\$ 231,087	\$ 502,278
 NET COST OF OPERATIONS	 \$ 8,349,252	 \$ 8,962,827

The accompanying notes are an integral part of these statements.

**UNITED STATES CHEMICAL SAFETY
AND HAZARD INVESTIGATION BOARD
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2004 AND 2003**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The United States Chemical Safety and Hazard Investigation Board (CSB), is an independent Federal agency with the mission of ensuring the safety of workers and the public by promoting chemical safety and accident prevention. CSB was established by the Clean Air Act Amendments of 1990, and is responsible for advising the President and Congress on key issues related to chemical safety and evaluating the effectiveness of other Government agencies on safety requirements.

B. Basis of Presentation

These financial statements are provided to meet the requirements of the Accountability of Tax Dollars Act of 2002. The statements consist of the Balance Sheet, Statement of Net Cost, Statement of Changes in Net Position, Statement of Budgetary Resources and Statement of Financing.

These financial statements have been prepared to report the financial position and results of operations of CSB. These statements were prepared from the books and records of CSB in conformity with accounting principles generally accepted in the United States of America, and the Office of Management and Budget (OMB) Bulletin No. 01-09, Form and Content of Agency Financial Statements. Specific line items were reclassified on the financial statements to conform to guidance set forth in OMB Bulletin No. 01-09, Form and Content of Agency Financial Statements.

C. Basis of Accounting

Transactions are recorded on an accrual accounting basis and a budgetary basis. Under the accrual method, revenues are recognized when earned and expenses are recognized when liabilities are incurred, without regard to receipt or payment of cash. Budgetary accounting measures the appropriations and consumption of budget authority and other budgetary resources and facilitates compliance with legal constraints and controls over use of Federal funds.

To assist OMB in recommending and publishing comprehensive accounting standards and principles for agencies of the Federal Government, the Secretary of the Treasury, the Comptroller of the United States of America, the Director of OMB, and the Joint Financial Management Improvement Program established the Federal Accounting Standards Advisory Board (FASAB) in 1990. The American Institute of Certified Public

Accountant's Council designated FASAB as the accounting standards authority for Federal government entities.

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

D. Revenues and Other Financing Sources

CSB receives all funding through Congressional appropriation from the budget of the United States of America. Annual appropriations are used, within statutory limits, for operating and capital expenditures for essential personal property. Appropriations are recognized as revenues at the time the related program or administrative expenses are incurred. Appropriations expended for capitalized property and equipment are recognized as expenses when an asset is consumed in operations.

E. Fund Balance with Treasury

Fund Balance with the Department of the Treasury primarily represents appropriated funds that are available to pay current liabilities and finance authorized purchase commitments. See Note 2 for additional information.

F. Advances and Prepayments

CSB records payments for goods and services not yet received as advances and reduces the advances by charges to expense as the goods and services are received.

G. General Property, Plant, and Equipment, Net

CSB's property, plant and equipment are recorded at cost and are depreciated using the straight-line method over the estimated useful lives of the assets. Major alterations and renovations are capitalized, while maintenance and repair costs are charged to expense as incurred. CSB's capitalization threshold is \$10,000 for individual purchases and \$50,000 for bulk purchases. Service lives are shown below. See Note 3 for additional information.

<u>Description</u>	<u>Life</u>
Leasehold Improvements	9
Office Furniture	7
Office Equipment	5
Computer Equipment	3

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H. Liabilities

Liabilities represent the amount of monies or other resources likely to be paid by CSB as a result of transactions or events that have already occurred. No liability can be paid, however, absent an appropriation. Liabilities for which an appropriation has not been enacted are, therefore, classified as not covered by budgetary resources, and there is no certainty that the appropriation will be enacted. Also, liabilities can be abrogated by the Government, acting in its sovereign capacity.

I. Accounts Payable

Accounts payable consists of amounts owed to other federal agencies and trade accounts payable.

J. Annual, Sick, and Other Leave

Annual leave is accrued as it is earned, and the accrual is reduced as leave is taken. Each year, the balance in the accrued leave account is adjusted to reflect current pay rates. To the extent current or prior year appropriations are not available to fund annual leave earned but not taken, funding will be obtained from future financing sources. Sick leave and other types of nonvested leave are expensed as taken.

K. Retirement Plans

CSB employees participate in the Civil Service Retirement System (CSRS) or the Federal Employees' Retirement System (FERS). FERS was established by the enactment of Public Law 99-335. Pursuant to this law, FERS and Social Security automatically cover most employees hired after December 31, 1983. Employees hired before January 1, 1984 elected to join either FERS and Social Security or remain in CSRS.

All employees are eligible to contribute to the Thrift Savings Plan (TSP). For those employees participating in the FERS, a TSP account is automatically established and CSB makes a mandatory one percent contribution to this account. In addition, CSB makes matching contributions, ranging from one to four percent, for FERS eligible employees who contribute to their TSP accounts. Matching contributions are not made to the TSP accounts established by CSRS employees.

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

K. Retirement Plans (Continued)

FERS employees and certain CSRS reinstatement employees are eligible to participate in the Social Security program after retirement. In these instances, CSB remits the employer's share of the required contribution.

CSB does not report on its financial statements information pertaining to the retirement plans covering its employees. Reporting amounts such as plan assets, accumulated plan benefits, and related unfunded liabilities, if any, is the responsibility of the Office of Personnel Management.

L. Imputed Costs / Financing Sources

Federal Government entities often receive goods and services from other Federal Government entities without reimbursing the providing entity for all the related costs. In addition, Federal Government entities also incur costs that are paid in total or in part by other entities. An imputed financing source is recognized by the receiving entity for costs that are paid by other entities. CSB recognized imputed costs and financing sources in fiscal years 2004 and 2003 to the extent directed by the OMB.

NOTE 2. FUND BALANCE WITH TREASURY

	2004 <u>(In Dollars)</u>	2003 <u>(In Dollars)</u>
Fund Balances		
Appropriated Funds	<u>\$3,290,959</u>	<u>\$2,811,808</u>
Status of Fund Balance with Treasury		
Unobligated Balance		
Available	\$ 518,057	\$ 334,323
Unavailable	957,859	893,498
Obligated Balance not yet Disbursed	<u>1,815,043</u>	<u>1,583,987</u>
Total	<u>\$3,290,959</u>	<u>\$2,811,808</u>

Funds on deposit with Treasury were \$3,669,545 as of September 30, 2004. The discrepancy between the funds on deposit with Treasury and the funds reported by CSB is due to \$378,586 in unused funds remaining in the 1998 cancelled year that are to be returned to Treasury.

NOTE 3. GENERAL PROPERTY, PLANT, AND EQUIPMENT

Schedule of Property, Plant, and Equipment as of September 30, 2004

<u>Description</u>	<u>Acquisition Cost (In Dollars)</u>	<u>Accumulated Depreciation (In Dollars)</u>	<u>Net Book Value (In Dollars)</u>
Leasehold Improvements	\$ 711,505	\$ (276,697)	\$ 434,808
Office Furniture	520,021	(260,010)	260,011
Computer Equipment	530,296	(463,039)	67,257
Office Equipment	<u>38,918</u>	<u>(32,828)</u>	<u>6,090</u>
TOTALS	<u>\$ 1,800,740</u>	<u>\$ (1,032,574)</u>	<u>\$ 768,166</u>

Schedule of Property, Plant, and Equipment as of September 30, 2003

<u>Description</u>	<u>Acquisition Cost (In Dollars)</u>	<u>Accumulated Depreciation (In Dollars)</u>	<u>Net Book Value (In Dollars)</u>
Leasehold Improvements	\$ 711,505	(\$ 197,640)	\$ 513,865
Office Furniture	520,021	(185,722)	334,299
Computer Equipment	520,095	(396,522)	123,573
Office Equipment	<u>38,918</u>	<u>(28,528)</u>	<u>10,390</u>
TOTALS	<u>\$ 1,790,539</u>	<u>(\$808,412)</u>	<u>\$ 982,127</u>

NOTE 4. OTHER ASSETS

	FY 2004 (In Dollars)	FY 2003 (In Dollars)
Receivable Due from Employee	\$ -	\$ 358
Deposit on Leased Space	<u>59,000</u>	<u>59,000</u>
Total Other Assets	<u>\$ 59,000</u>	<u>\$ 59,358</u>

NOTE 5. OPERATING LEASE

CSB occupies office space under a lease agreement that is accounted for as an operating lease. The lease term began on October 1, 2000 and expires on September 30, 2010, with the renewal rights for an additional five years. Lease payments are increased annually based on the adjustments for operating cost and real estate taxes not to be increased by an amount greater than 2 percent of the Base Rental rate in effect for the prior lease year. In the sixth year of the lease the Base Rental Rate shall increase \$2.00 per square foot.

Schedule of Future Minimum Lease Payments

	(In Dollars)
2005	644,167
2006	682,399
2007	696,047
2008	709,968
2009	724,167
Thereafter	<u>738,650</u>
Total Future Minimum Lease Payments	<u>\$4,195,397</u>

NOTE 6. LIABILITIES

The accrued liabilities for CSB are comprised of program expense accruals, payroll accruals, and unfunded annual leave earned by employees. Program expense accruals represent expenses that were incurred prior to year-end but were not paid. Similarly, payroll accruals represent payroll expenses that were incurred prior to year-end but were not paid.

NOTE 6. LIABILITIES (CONTINUED)

Schedule of Liabilities as of September 30.

	2004 <u>(In Dollars)</u>	2003 <u>(In Dollars)</u>
Intragovernmental Program Expenses	\$ 14,860	\$ 400
Payroll Taxes Payable	<u>-</u>	<u>21,915</u>
Total Intragovernmental	14,860	22,315
Accounts Payable	131,252	438,836
Payroll Accrual and Other	281,691	107,735
Unfunded Leave	252,592	245,666
Other Liabilities	142,417	-
Contingent Liabilities	<u>-</u>	<u>200,000</u>
Total Liabilities	<u>\$ 822,812</u>	<u>\$1,014,552</u>

NOTE 7. LIABILITIES NOT COVERED BY BUDGETARY RESOURCES

The liabilities on CSB's Balance Sheet as of September 30, 2004 and 2003, include liabilities not covered by budgetary resources, which are liabilities for which congressional action is needed before budgetary resources can be provided. Although future appropriations to fund these liabilities are likely and anticipated, it is not certain that appropriations will be enacted to fund these liabilities. Liabilities not covered by budgetary resources consist entirely of unfunded leave. Unfunded leave balances are \$252,592 and \$245,666 as of September 30, 2004 and 2003, respectively.

NOTE 8. COMMITMENTS AND CONTINGENCIES

The CSB is subject to various claims and contingencies related to litigation as well as commitments under contractual and other commercial obligations. For situations in which payment has been deemed probable and for which the amount of the CSB's liability has been estimated, \$200,000 has been accrued in the financial statements as of September 30, 2003. No amounts have been accrued in the financial statements for claims and contingencies related to litigation as well as commitments under contractual and other commercial obligations where the amount or probability of judgment is uncertain.

NOTE 9. NET POSITION

CSB's net position is composed of unexpended appropriation and cumulative results of operations. Net position as of September 30, 2004 and 2003 consisted of the following:

Unexpended Appropriations:	2004 (In Dollars)	2003 (In Dollars)
Unobligated Balance Available	\$ 544,043	\$ 334,323
Unobligated Balance Unavailable	957,859	893,498
Undelivered Orders	<u>1,277,837</u>	<u>1,074,101</u>
Total	\$2,779,739	\$2,301,922
Cumulative Results of Operations	<u>515,574</u>	<u>536,819</u>
Net Position	<u>\$3,295,313</u>	<u>\$2,838,741</u>

NOTE 10. EXPLANATION OF DIFFERENCES BETWEEN THE STATEMENT OF BUDGETARY RESOURCES AND THE BUDGET OF THE UNITED STATES GOVERNMENT

The 2006 Budget of the United States Government, with the Actual Column completed for fiscal year 2004, has not yet been published as of the date of these financial statements. The Budget is expected to be published and delivered to Congress in early February 2005. The 2005 Budget of the United States Government, with the Actual Column completed for 2003, has been reconciled.



416 Hungerford Drive, Suite 400
Rockville, Maryland 20850
301-738-8190
fax: 301-738-8210
leonsnead.companypc@erols.com

Management Letter

Inspector General, United States Chemical Safety and Hazard Investigation Board
Chairperson, United States Chemical Safety and Hazard Investigation Board

We have audited the financial statements of the Chemical Safety and Hazard Investigation Board (CSB), as of and for the years ended September 30, 2003 and 2004, and have issued our report thereon dated October 22, 2004. In planning and performing our audit of the financial statements of CSB, we considered internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements.

In performing our audit, we noted a matter involving internal control that is presented for your consideration. Independent auditors under contract with the Environmental Protection Agency identified five deficiencies in policies, procedures, and practices relating to Information Technology (IT) during their *Federal Information Security Management Act* review for fiscal year 2004. Four of the deficiencies were also reported in fiscal year 2003. The deficiencies indicated that CSB had not: (1) implemented essential controls such as file and email encryption, and completed system risk assessments, (2) provided required annual security awareness training to all staff; (3) developed incident response procedures; (4) completed certification and accreditation reviews of all systems; and (5) instituted a formal patch management program.

We discussed this issue with CSB officials. The officials stated that budget constraints have impacted the agency's ability to accomplish all aspects of its IT security plan, such as completion of risk assessments, and certification and accreditation of systems. While four conditions from fiscal year 2003 still remain open, CSB has made substantial progress in completing its overall corrective action plans. Because CSB has developed corrective action plans that when completed should resolve these conditions, we are making no additional recommendations on these matters.

This report is intended solely for the information and use of the management of CSB, the Office of Inspector General of the CSB, OMB, and the Congress, and is not intended to be and should not be used by anyone other than these specified parties.

Leon Snead & Company, P.C.
Leon Snead & Company, P.C.
October 22, 2004