January 16, 2026

TO: Peter A. Feldman, Acting Chairman

FROM: Christopher W. Dentel, Inspector General CHRISTOPHER DENTEL Digitally signed by CHRISTOPHER DENTEL Date: 2026.01.16 18:00:54 -05'00'

SUBJECT: Audit of the Consumer Product Safety Commission's Fiscal Year 2025 Financial Statements

Pursuant to the Accountability of Tax Dollars Act of 2002, this letter transmits the Independent Auditors' Report issued by KPMG, LLP (KPMG), for the fiscal year (FY) ending September 30, 2025. The audit was performed under a contract with, and monitored by, the Office of Inspector General (OIG), in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and applicable provisions of Office of Management and Budget (OMB) Bulletin No. 24-02, Audit Requirements for Federal Financial Statements.

Since FY 2023, the Consumer Product Safety Commission (CPSC) faced a number of challenges regarding the issuance of its financial statements. That year, realizing that it would not be able to meet the financial statement audit deadline for federal agencies, the CPSC requested and received an extension from OMB to issue its financial statements late and later requested and received a second extension. While the CPSC met this second deadline, it received a "qualified" rather than a "clean" or "unqualified" audit opinion. This was due to the agency inappropriately calculating the accumulated depreciation and depreciation expense related to its Property, Plant, and Equipment (PP&E) and being unable to recalculate said accumulated depreciation and depreciation expense in a timely manner. Additionally, the agency restated its net position due to material errors identified in its accrual for accounts payable.

To their credit, CPSC management took decisive action in FY 2024 to ensure that the agency would receive a clean audit opinion by investing substantial resources into contracting for financial management and audit remediation support. As a result, the agency was able to issue its financial statements in a timely manner and earned an unqualified opinion. However, there was negligible progress on identified weaknesses in internal control as the agency received three material weaknesses and a significant deficiency for a second straight year.

This year, the agency continued to maintain its contracted financial management and audit remediation support. In large part due to their contracted support, the agency was able to again earn an unqualified opinion, resolve its significant deficiency for prepaid expenses identified in both FY 2023 and FY 2024, and downgrade the severity of the finding for controls over the review of journal entries

from a material weakness to a significant deficiency. However, poor communication continues to plague the CPSC. The failure to properly communicate between the Office of Financial Management, Planning and Evaluation (EXFM) and the Office of Information and Technology Services led to the agency failing to capitalize internal use software development costs for the past several years. Furthermore, the failure of EXFM to communicate with KPMG regarding the nature and timing of the corresponding correcting prior period adjustment did not allow KPMG adequate time to audit the adjustment. As a result, for the second time in three years the agency both had to make a material correction to net position and requested and received an extension from OMB to issue its financial statements after the statutory deadline.

The failure of agency management to fully implement corrective actions to address the underlying problems with its financial management and internal control identified in the FY 2023 Financial Statement Audit has led to a continuing lack of: CPSC personnel with the required competence in financial management operations and reporting experience, training, communication across offices, risk assessments, and monitoring processes due to the lack of effective entity level controls, which was itself a material weakness. In FY 2025, the CPSC experienced two material weaknesses and a significant deficiency. These issues increase the risk of both fraud occurring and the risk that misstatements due to error or fraud may go undetected and uncorrected by management. These weaknesses caused certain deficiencies in process level controls that resulted in known misstatements that were subsequently corrected. These matters are discussed in greater detail below and in the independent auditor's report.

Opinion on the Financial Statements

KPMG audited the financial statements of the CPSC, which comprise the balance sheet as of September 30, 2025, and the related statements of net cost, changes in net position, budgetary resources, and custodial activity for the year then ended, and the related notes to the financial statements; collectively known as the financial statements. The objective of the audit was to express an opinion on the fair presentation of those financial statements. In connection with the audit, KPMG also considered the CPSC's internal controls over financial reporting and tested the CPSC's compliance with certain provisions of applicable laws and regulations that could have a material effect on its financial statements.

In KPMG's opinion, the financial position, net cost, changes in net position, budgetary resources, and custodial activity of the CPSC as of, and for the year ending September 30, 2025, are presented in conformity with accounting principles generally accepted in the United States of America.

Report on Internal Control

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

Because of inherent limitations in internal controls, including the possibility of management override of controls; misstatements, losses, or noncompliance may nevertheless occur and not be detected.

According to the American Institute of Certified Public Accountants:

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

KPMG's consideration of internal controls was for the limited purpose described above and would not necessarily identify all deficiencies in internal controls that might be significant deficiencies or material weaknesses. KPMG did identify multiple deficiencies in internal control as detailed below.

KPMG found that CPSC management had still not addressed the material weakness at the entity level of internal control over its financial reporting and financial management it had found in FY 2023. Entity level internal controls help management achieve desired results through effective stewardship of public resources. This foundational level weakness played a key role in the agency receiving a qualified opinion in FY 2023, receiving three material weaknesses and a significant deficiency in its internal controls in FY 2024, and two material weaknesses and a significant deficiency in its internal controls in FY 2025. Although management drafted a corrective action plan regarding these matters after the FY 2023 Financial Statement Audit, they did not implement it. As a result of the ongoing deficiency at the entity level of internal control, KPMG found that the CPSC still:

- Lacked a comprehensive succession plan to ensure appropriate personnel with the required competence in financial management operations and reporting experience were available to perform the requisite responsibilities. Management also lacked a process to ensure historical information regarding key financial reporting decisions was maintained. This failure is particularly noteworthy given that the Office of Personnel Management first noted the CPSC's shortcomings in the area of succession planning in 2008; this office issued a report recommending that the agency develop a formal succession plan in March of 2023; and that the agency, has to date, still not taken appropriate corrective action.
- Had not adequately trained employees to ensure they had the necessary knowledge and information to meet their control objectives.
- Had inadequate communication channels between offices within the CPSC to ensure financial information was communicated timely and accurately.
- Had not performed regular and comprehensive risk assessments to identify and evaluate potential risks that could impact financial reporting objectives.
- Did not have sufficient monitoring processes in place to assess its internal control over financial

reporting.

Due to the lack of effective entity level controls discussed above, there were errors in the financial statements that required adjustments, and the CPSC experienced an additional material weakness and a significant deficiency.

First, CPSC management has still not designed, documented, or implemented adequate processes and controls related to the recording of PP&E, including calculating the related depreciation expense. This material weakness previously resulted in the qualification of the FY 2023 financial statements and was also found to be a material weakness in both FY 2023 and FY 2024. This is a continuation of the CPSC's long history of PP&E issues. These issues include: findings made in the Review of Personal Property Management System and Practices for Calendar Year 2017 that the CPSC had not implemented sufficient internal controls to ensure that property was properly accounted for and reliable data entered into the CPSC's property management systems, the CPSC having to restate its FY 2018 financial statements due to errors for the amortization of leasehold improvements and tenant allowance liability balances, and the finding of a material weakness in the FY 2020 Financial Statement Audit related to controls over leases and leasehold improvements. This year, it resulted in a material correction in net position and multiple issues regarding improperly calculated depreciation, which the CPSC continues to process manually.

Second, the agency continued to have inadequate implementation of internal controls over manual journal entries. As these entries can record transactions to any general ledger account for any amount necessary, they require appropriate internal controls which include monitoring activities. KPMG found that more than 80 percent of their sampled journal entries lacked documentation of review or approval by CPSC for entries initiated by the agency's service organization. Furthermore, management did not maintain documentation that it timely performed a quarterly review of journal entries that were processed and reviewed solely by the service organization. KPMG considered this matter to constitute a significant deficiency.

Report on Compliance with Laws and Regulations

CPSC management is responsible for complying with laws and regulations applicable to the agency. To obtain reasonable assurance about whether the CPSC's financial statements are free of material misstatements, KPMG performed tests of compliance with certain provisions of laws and regulations, noncompliance which could have a material effect on the determination of financial statement amounts, and certain other laws and regulations specified in OMB Bulletin No. 24-02. KPMG did not test compliance with all laws and regulations applicable to the CPSC.

KPMG's tests of compliance with laws and regulations described in the audit report did not disclose any instances of non-compliance that are required to be reported by Government Auditing Standards.

OIG Evaluation of KPMG's Audit Performance

We reviewed KPMG's report and related documentation and made necessary inquiries of its representatives. Our review, as differentiated from an audit in accordance with Government Auditing Standards, was not intended to enable the OIG to express, and we do not express an opinion on the CPSC's financial statements; nor do we provide conclusions about the effectiveness of internal control or conclusions on CPSC's compliance with laws and regulations. KPMG is responsible for the attached auditors' report. However, the OIG review disclosed no instances where KPMG did not comply, in all material respects, with Government Auditing Standards.

We appreciate the courtesies and cooperation extended to KPMG and OIG staff during the audit. If you should have any questions concerning this report, please contact my office at (301) 504-7905.

KPMG LLP
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Independent Auditors' Report

Acting Chairman and Inspector General
United States Consumer Product Safety Commission:

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the United States Consumer Product Safety Commission (CPSC), which comprise the balance sheet as of September 30, 2025, and the related statements of net cost, changes in net position, custodial activity, and budgetary resources for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the CPSC as of September 30, 2025, and its net cost, changes in net position, budgetary resources, and custodial activity for the year then ended in accordance with U.S. generally accepted accounting principles.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS), the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and Office of Management and Budget (OMB) Bulletin No. 24-02, *Audit Requirements for Federal Financial Statements*. Our responsibilities under those standards and OMB Bulletin No. 24-02 are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the CPSC and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Other Matter - Interactive Data

Management has elected to reference to information on websites or other forms of interactive data outside the Agency Financial Report to provide additional information for the users of its financial statements. Such information is not a required part of the financial statements or supplementary information required by the Federal Accounting Standards Advisory Board. The information on these websites or the other interactive data has not been subjected to any of our auditing procedures, and accordingly we do not express an opinion or provide any assurance on it.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with U.S. generally accepted accounting principles, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not

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a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards,* and OMB Bulletin No. 24-02 will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, *Government Auditing Standards,* and OMB Bulletin No. 24-02, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the CPSC's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the CPSC's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Required Supplementary Information

U.S. generally accepted accounting principles require that the information in the Management's Discussion and Analysis and Required Supplementary Information sections be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Federal Accounting Standards Advisory Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with GAAS, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Management is responsible for the other information included in the Agency Financial Report. The other information comprises the About The Consumer Product Safety Commission, About This Report, Message from the Acting Chairman, Message from the Acting Chief Financial Officer, Other Information, and Appendix A sections but does not include the financial statements and our auditors' report thereon. Our opinion on the financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we

conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by *Government Auditing Standards*

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements as of and for the year ended September 30, 2025, we considered the CPSC's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the CPSC financial statements, but not for the purpose of expressing an opinion on the effectiveness of the CPSC's internal control. Accordingly, we do not express an opinion on the effectiveness of the CPSC's internal control. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in Exhibits I and II, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies described as items A and B in Exhibit I to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described as item C in Exhibit II to be a significant deficiency.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the CPSC's financial statements as of and for the year ended September 30, 2025, are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 24-02.

We also performed tests of the CPSC's compliance with certain provisions referred to in Section 803(a) of the *Federal Financial Management Improvement Act of 1996* (FFMIA). Providing an opinion on compliance with FFMIA was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances in which the CPSC's financial management systems did not substantially comply with the (1) Federal financial management systems requirements, (2) applicable Federal accounting standards, and (3) the United States Government Standard General Ledger at the transaction level.

CPSC's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the CPSC's response to the findings identified in our audit and described in Exhibit III. The CPSC's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of the Other Reporting Required by Government Auditing Standards

The purpose of the communication described in the Report on Internal Control Over Financial Reporting and the Report on Compliance and Other Matters sections is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the CPSC's internal control or compliance. This communication is an integral part of an audit performed in accordance with Government Auditing Standards in considering the CPSC's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Washington, DC
January 16, 2026

Exhibit I
Material Weaknesses

A. Entity-Level Controls

Entity-level controls are an integral component of internal control systems of an entity and serve as a foundation of the processes management uses to guide its operations. These controls encompass the control environment, risk assessment, information and communication, and monitoring activities for the CPSC. When operating effectively, an effective internal control system increases the likelihood that an entity will achieve its objectives. In the prior two fiscal years, we noted that the CPSC had weaknesses in its entity-level controls and in response management developed and began implementing corrective action plans, though they have not yet been fully implemented. The following weaknesses continued in the current year:

- Succession and contingency planning: CPSC management did not have a financial management succession plan to ensure appropriate personnel with the required competence in financial management operations and reporting experience were available to perform the requisite responsibilities. Additionally, CPSC management had no process in place to ensure information regarding key historical financial reporting decisions was maintained such that financial reporting personnel would be able to perform the responsibilities of their positions with the relevant financial information.

- Training and communication: CPSC financial management employees did not have adequate training to ensure they had the necessary knowledge to meet their control objectives. Additionally, there continued to be inadequate communication channels between offices within the CPSC to ensure relevant and necessary financial reporting information requirements were communicated timely to achieve financial reporting deadlines.

- Risk assessments: CPSC management did not conduct regular and comprehensive risk assessments to identify, evaluate, and document potential risks that could impact financial reporting objectives. As such, necessary responses to those risks were not in place.

- Monitoring and oversight: CPSC management did not have sufficient processes in place to monitor its internal control over financial reporting. Accordingly, certain controls were not operating effectively during the fiscal year.

This lack of effective entity-level controls increased the risk of the CPSC not achieving its financial reporting and management objectives. Furthermore, it increased the risk that misstatements due to error or fraud may go undetected and uncorrected by management. Lastly, the deficiencies in entity-level controls resulted in certain deficiencies in process-level controls that resulted in known misstatements that were subsequently corrected, including:

- A correction was required for internal-use software and software-in-development that had not been properly capitalized in prior years. The total adjustment was $12.2 million, net of accumulated amortization.

- Adjustments required for errors and omissions of certain amounts to the financial statements and related notes.

The deficiencies noted above occurred because CPSC management did not: have adequate resources to prioritize its enterprise risk management process to ensure that entity-level controls were designed, implemented, and operating effectively throughout the year; develop training materials and manuals to assist financial management personnel; ensure sufficient risk assessment and monitoring activities were occurring.

Exhibit I
Material Weaknesses

GAO's *Standards for Internal Control in the Federal Government* (Green Book) Principles 2 – Exercise Oversight Responsibility, 4 – Demonstrate Commitment to Competence, 7 – Identify, Analyze and Respond to Risk, 14 – Communicate Internally and 16 – Perform Monitoring Activities are relevant to the conditions noted.

To address the deficiencies noted, we continue to recommend that agency management:

1. Perform an assessment of employee resources in the Office of Financial Management, Planning, and Evaluation, and other relevant financial process areas to ensure an appropriate complement of resources are in place to manage accounting and reporting matters as they arise and through their normal course of business.

2. Provide training and supervision for personnel on financial management matters that affect the financial statements, including adhering to accounting policies and procedures, as appropriate, performing key internal control functions in support of financial reporting.

3. Develop desktop manuals to assist personnel in meeting their assigned responsibilities.

4. Improve the risk assessment process at the financial statement assertion and process level to ensure that CPSC management is appropriately capturing significant changes in the control environment and subsequently responding to those risks.

5. Implement key monitoring controls over the financial reporting process and develop robust policies and procedures to increase oversight, review, and accountability of accounting events at the process level to ensure the successful implementation of an effective internal control environment.

6. Improve the communication process between offices within the CPSC to ensure relevant and necessary financial reporting information requirements are communicated timely to achieve financial reporting requirements.

B. Controls Over Property, Plant, and Equipment

The CPSC management has not designed, documented, or implemented adequate processes and controls related to the recording of Property, Plant, and Equipment (PP&E), including calculating the related depreciation expense. From a sample of four capitalized assets, we identified: one capitalized asset that incorrectly included warranty costs, and three capitalized assets with incorrectly calculated depreciation expense. The impact of the three errors resulted in a net actual understatement of $8,670 and a projected overstatement of $18,220, of the net book value.

Additionally, based on our review of management's equipment reconciliations, we identified four assets where management calculated depreciation expense even though the assets were already fully depreciated; and an unidentified difference of $425,497 in accumulated depreciation and the final trial balance amount. Furthermore, during our testing of completeness and existence of capitalized assets, we identified one accountable asset that was still in service, but had been recorded as a disposal.

Lastly, we noted that management recorded a prior period correction of an error for $8.9 million of internal-use software and $4.8 million of software-in-development that was incorrectly expensed in prior periods.

The deficiencies noted above occurred because the CPSC lacked adequate policies and procedures and communication across support offices during the acquisition and receipt processes to effectively determine the appropriate capitalization and recognition date of PP&E and Software. Additionally, the

Exhibit I
Material Weaknesses

CPSC lacked adequate policies and procedures for the manual calculation of depreciation expense and inventory of assets still in-use.

GAO Green Book Principles 10 – Design Control Activities, and 14 – Communicate Internally; are relevant to the conditions noted.

To address the deficiencies noted, we continue to recommend that agency management:

7. Document their understanding of the acquisition process and determination of the appropriate recognition date of PP&E in order to update and enhance policies and procedures to align with the requirements of the applicable financial reporting standards.

8. Design and implement processes and controls in accordance with those updated policies and procedures to ensure PP&E and internal use software balances are completely and accurately recorded in the general ledger.

9. Establish recurring communication with the appropriate stakeholders to ensure necessary information is available for analysis.

Exhibit II
Significant Deficiency

C. Controls Over the Review of Journal Entries

As part of the financial reporting process, CPSC management uses manual journal entries to record transactions that are not automated as part of other business processes. These manual journal entries may include quarterly accruals or year-end, on-top adjustments for financial reporting purposes. As these entries can record transactions to any general ledger account for any amount necessary, they require appropriate review controls for approval. CPSC utilizes a service organization to assist in processing and recording a portion of their manual journal entries.

During our testing, we noted CPSC management did not have effective controls over journal entries. Specifically, we identified 14 of 17 sampled manual journal entries that were initiated by the service organization; with no documentation of review and approval by CPSC. In addition, no documentation was maintained to evidence that CPSC's quarterly review of the report of journal entries that were processed and reviewed solely by the service organization, was done timely.

This lack of effective journal entry controls impacts the agency's ability to achieve its financial reporting and financial management objectives. As journal entries can impact any financial caption, there is an increased risk that fraud or material misstatements may go undetected and uncorrected by management, or not be prevented.

The deficiencies noted above occurred because CPSC management did not have consistent policies over the journal entry process nor requirements for documentation to be maintained evidencing the quarterly journal entry report review. Additionally, CPSC management did not have an effective risk assessment process to assess the appropriate journal entry review policies.

GAO Green Book Principles 3 – Establish Structure, Responsibility, & Authority, 4 – Demonstrate Commitment to Competence, 10 – Design Control Activities, 12 – Implement Control Activities, and 17 – Evaluate Issues & Remediate Deficiencies are relevant to the conditions noted.

To address the deficiencies noted, we continue to recommend that agency management:

10. Update policies, and procedures related to monitoring and oversight of internal controls related to journal entries, to ensure internal consistency with, and clear definition of, those journal entries that are processed by the service provider; and to define the required documentation to be maintained to evidence CPSC's quarterly review of journal entry reports.

11. Provide training on the importance of internal control and segregation of duties based on updated policies and procedures.

Exhibit III
Management's Response

United States
Consumer Product Safety Commission

Memorandum

DATE: January 13, 2026

TO: Christopher W. Dentel
Inspector General

FROM: Brien Lorenze
Executive Director

BRIEN LORENZE Digitally signed by BRIEN LORENZE
Date: 2026.01.13 15:47:43 -05'00'

SUBJECT: Management Response to Independent Auditor's Draft Report

I appreciate this opportunity to provide a response to the Fiscal Year (FY) 2025 Independent Auditor's Report of the CPSC's Financial Statements (Draft Report) and would like to thank the Office of Inspector General and KPMG audit team for their insight and support during the FY 2025 annual audit. Furthermore, we appreciate the auditors' issuance of an unmodified opinion, affirming that our financial statements present fairly, in all material respects, the Commission's financial position and results of operations for the year ended September 30, 2025.

CPSC management is pleased that the auditors found improvements to certain CPSC operations, to include entity level controls, journal entries, and prepaid expenses. Specifically, the auditors were able to close the prepaid expenses significant deficiency initially identified in FY 2023 due to our formalization of policies and procedures, development of related staff training, and implementation of newly designed controls to ensure completeness and accuracy of prepaid expense reporting. Additionally, the auditors downgraded the review of journal entries from a material weakness identified in FY 2024 to a significant deficiency for FY 2025.

At the same time, despite the substantial progress made in FY2025, CPSC management acknowledges KPMG's finding of two material weaknesses and one significant deficiency which is a downgrade from a material weakness identified previously regarding the review of journal entries. As explained below, management intends to timely address these findings.

Material Weaknesses

1. Entity-Level Controls. The auditors identified weaknesses in entity-level controls in the areas of succession and contingency planning, training and communication, risk assessment, and monitoring and oversight. The Draft Report concludes that these weaknesses led to errors related to the recording of internal use software and adjustments required for errors of certain amounts to the financial statements and related notes.

Expanding on the auditor's acknowledgement of progress made, specific actions completed in FY 2025 include the following:

A. Developed in-depth succession plans for three key financial management positions (CFO, Budget Officer, and Internal Controls Auditor) to ensure continuity of operations during staff transition;

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United States
Consumer Product Safety Commission

B. Delivered targeted training for the accounting staff regarding prepaid expenses, journal entry guidance on segregation of duties, and GAAP hierarchy updates;
C. Established reoccurring solutions groups to facilitate communications with other CPSC offices to obtain necessary financial reporting information;
D. Improved the ERM program by updating risk assessment processes, providing internal control briefings to the Senior Management Council governance body, and updating the CPSC risk profile; and
E. Assessed staff resource needs in alignment with Executive Order (EO) 14120, *Implementing The President's "Department of Government Efficiency" Workforce Optimization Initiative*, EO 14356, *Ensuring Continued Accountability in Federal Hiring*, Office of Personnel Management (OPM) Guidance related to EO 14356, *Ensuring Continued Accountability in Federal Hiring*, and OPM guidance on *Performance Management for Federal Employees*.

CPSC management acknowledges the entity-level control finding and will update the corrective action plan, continuing its execution to resolve this by FY 2026. This demonstrates our commitment to financial excellence.

2. Controls Over Recording Property, Plant, and Equipment (PPE) and Related Depreciation Expense. The auditors found that inadequate policies, procedures, and communication across support offices hindered the proper capitalization and recognition date of internal use software and the calculation of PPE depreciation expense. CPSC management acknowledges this finding, has established a corrective action plan to remediate it, and will continue to implement the plan.

Significant Deficiency

Controls Over the Review of Journal Entries. This issue, previously a material weakness in FY 2024, shows progress with actions taken in FY 2025. Despite CPSC establishing interim policies and procedures outlining duties between CPSC and the shared service provider, auditors found inconsistencies and inadequate documentation for validating quarterly journal entry reviews. CPSC management acknowledges this finding and will update the current corrective action plan to fully remediate in the next fiscal year.

In summary, CPSC takes its fiscal responsibilities seriously and continues to have a high degree of confidence in the integrity of CPSC's financial operations and programs and our demonstrated ability to continuously improve them and remain committed to fully addressing the identified weaknesses and deficiencies. Our goal is to strengthen internal controls and sustain reliable, timely financial reporting.

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