



# THE U.S. CONSUMER PRODUCT SAFETY COMMISSION

*Inspection of the IPERIA Review Program*

*Fiscal Year 2014 Inspection Report*

*Contract #CPSC-D-14-0013, Task #3*

*May 12, 2015*

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Date: May 15, 2015

Via Electronic Transmission

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FROM : Christopher W. Dentel, Inspector General

SUBJECT: Improper Payments Elimination and Recovery Act (IPERA) Review

According to the Government Accountability Office, improper Federal payments to individuals, organizations, and contractors totaled an estimated \$127.4B during fiscal year (FY) 2014. The Improper Payments Information Act of 2002 (IPIA), as amended by the Improper Payments Elimination and Recovery Act of 2010 (IPERA), further amended by the Improper Payments Elimination and Recovery Improvement Act of 2012 (IPERIA), as implemented by OMB Memorandum M-15-02, requires that Federal agencies take several steps to reduce improper payments and that Inspectors General review annually their agency's improper payment reporting in their agency's Performance and Accountability Report (PAR) or Agency Financial Report (AFR) as appropriate.

To assess agency compliance with IPERA for fiscal year (FY) 2014, the CPSC OIG retained the services of Kearney & Company (Kearney) an independent certified public accounting firm. Under a contract monitored by the Office of Inspector General, Kearney, issued an inspection report regarding the CPSC's compliance with IPERA. The contract required that the inspection be performed in accordance with the Council of the Inspectors General on Integrity and Efficiency's (CIGIE) Quality Standards for Inspection and Evaluation (QSIE).

Kearney found the CPSC was not compliant with IPERA, as amended by IPERIA, and OMB M-15-02. Although the CPSC performed a program-specific risk assessment for those activities identified as susceptible to significant improper payments, Kearney found that the risk assessment provided was not compliant with IPERIA. The support provided for the risk assessment was not consistent with the conclusions of the risk assessment itself, as required by

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OMB M-15-02. Inconsistencies were also found between the documentation of the Standard of Operating Procedure (SOP) for the IPERIA review and the actual procedures performed for the risk assessment. Specifically, Kearney noted that the documented procedures received for the risk assessment could not be re-performed by following the procedures listed in its SOP

In addition, Kearney found that the improper payment estimate developed by the CPSC was not in compliance with IPERIA as it was based on FY 2013 data instead of FY 2014 data, as required by OMB M-15-02. OMB M-15-02 allows improper payment estimates to be developed on financial data that is not concurrent with the reporting FY, as long as OMB has approved it in advance and in writing. The CPSC could not provide OMB approval for using FY 2013 data instead of FY 2014 data.

Finally, Kearney noted that the CPSC's AFR did not include all of the relevant OMB required disclosures.

Kearney did find that the CPSC had made several improvements to its IPERA review process, to include a robust statistical sampling of all payment activities, centralization of documentation, and enhanced documentation for performance of the annual IPERA review. Additionally, Kearney found the CPSC had performed a very robust sampling procedure as a detective internal control for improper payments. Kearney noted that the CPSC did exhibit internal controls in place that were designed effectively and operating effectively to identify and address improper payments after they occur. As such, the CPSC was able to provide substantial amounts of support for its conclusion in the FY 2014 AFR of a 0% improper payment error rate on its FY 2013 data.

However, Kearney also found that the CPSC lacked internal controls, designed effectively and operating effectively, to ensure compliance with the requirements for Federal agencies as promulgated in IPERIA and OMB M-15-02.

The CPSC did not concur with Kearney's finding that the agency was not in compliance with IPERA, as amended by IPERIA, and OMB M-15-02 requirements. CPSC management provided a response, which is reproduced in full as an appendix to Kearney's report. Kearney did not audit the management response; and accordingly, did not provide any assurance on it. Similarly, the CPSC OIG has not audited the management response, but after reading it, offers the following observations. First, the CPSC was required by OMB M-15-02 to "... institute a systematic method of reviewing all programs and identify programs susceptible to significant improper payments."<sup>1</sup> The methodology described in the management response may be compliant with IPERA, as amended by IPERIA, and OMB M-15-02 requirements. However, it is not consistent with the methodology set-out in the CPSC's AFR or in the agency's written procedures for performing its IPERIA review. Second, despite CPSC management's assertions to the contrary, OMB M-15-02 does require the maintenance of adequate documentation to establish that the agency complied with the relevant OMB M-15-02 requirements.<sup>2</sup> Finally,

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<sup>1</sup> OMB M-15-02, Part 1, Section A, paragraph 9, subparagraph b

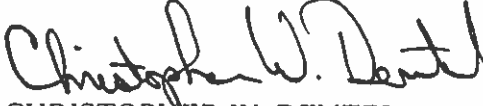
<sup>2</sup> OMB M-15-02, Part 1, Section A, paragraph 9

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OMB M-15-02 requires that agencies use data from the same fiscal year being reported (i.e., data from FY 2014 should be used in the FY 2014 AFR) when estimating improper payments.<sup>3</sup> The CPSC's AFR contains both explicit and implicit estimates of improper payments in given programs based on FY 2013 data.

In connection with the contract, we reviewed Kearney's report and related documentation and inquired of its representatives. Our review was not intended to enable us to express, and we do not express, an opinion on the matters contained in the report. Kearney is responsible for the attached report. However, our review disclosed no instances where Kearney did not comply, in all material respects, with CIGIE's QSIE.

If you have any questions please feel free to contact me at (301) 504-7644.

  
CHRISTOPHER W. DENTEL  
Inspector General

Attached: Inspection Report

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<sup>3</sup> OMB M-15-02, Part I, Section A, paragraph 15

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## EXECUTIVE SUMMARY

### Background

Improper Federal payments to individuals, organizations, and contractors totaled an estimated \$127.4B during fiscal year (FY) 2014.<sup>1</sup> Improper payments are payments that should not have been made or were made in an incorrect amount. These include overpayments and underpayments, duplicate payments, payments made to an ineligible recipient, payments for an ineligible good or service, payments for goods or services not received (except for such payments authorized by law), payments that do not account for credit for applicable discounts, and payments for which an agency cannot determine whether the payments were proper because of insufficient or lack of supporting documentation.

The Improper Payments Information Act of 2002 (IPIA), as amended by the Improper Payments Elimination and Recovery Act of 2010 (IPERA),<sup>2</sup> further amended by the Improper Payments Elimination and Recovery Improvement Act of 2012 (IPERIA) requires agencies' Offices of Inspectors General (OIG) to annually assess compliance with improper payments requirements.<sup>3</sup> In accordance with this requirement, Kearney & Company, P.C. (Kearney), an external audit firm acting on the OIG's behalf, conducted an inspection of the United States Consumer Product Safety Commission's (CPSC) compliance with IPERIA during FY 2014.

### Results of Evaluation and Findings

Although the CPSC performed a program-specific risk assessment for those activities identified as susceptible to significant improper payments, Kearney found that the risk assessment provided was not in compliance with IPERIA 2012 as the support provided for the risk assessment was not consistent with the conclusions of the risk assessment itself, as required by Office of Management and Budget (OMB) M-15-02.

In addition, Kearney found that the improper payment estimate developed by the CPSC was not in compliance with IPERIA 2012 as it was based on FY 2013 data instead of FY 2014 data, as required by OMB M-15-02. OMB M-15-02 allows improper payment estimates to be developed on financial data that is not concurrent with the reporting FY, as long as OMB has approved it. The CPSC could not provide OMB approval for using FY 2013 data instead of FY 2014 data.

Lastly, Kearney noted that the CPSC should enhance the disclosures in its Agency Financial Report (AFR).

Over the past years, the CPSC has made several improvements to its IPERIA review process, to include a robust statistical sampling of all payment activities, centralization of documentation, and enhanced documentation for performance of the annual IPERIA review. In addition, the CPSC has hired highly competent individuals to perform the annual IPERIA review. The robust

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<sup>1</sup> Bertoni, Daniel. "Improper Payments: Government-Wide Estimates and Use of Death Data to Help Prevent Payments to Deceased Individuals," Government Accountability Office (GAO), March 16, 2015.

<sup>2</sup> Unless otherwise indicated, the term "IPIA" implies "IPIA, as amended by IPERA" in this report.

<sup>3</sup> Public Law (P.L.) No. 111-204 § 3(b)

sampling procedure acts as an effective detective control for improper payments. As such, it is noted that the CPSC exhibits controls in place that are designed and operating effectively to identify and address improper payments after they occur. The CPSC was able to provide substantial amounts of support for its conclusion in the FY 2014 AFR of a 0% improper payment error rate on its FY 2013 data.

At this time, however, Kearney must remark that the CPSC still lacks controls, designed and operating effectively, to ensure compliance with the requirements for Federal agencies as promulgated in IPERIA and OMB M-15-02. As such, we find that the CPSC IPERIA Review for FY 2014 is noncompliant with IPERIA and OMB M-15-02 as promulgated by OMB.

IPERIA 2012 and OMB M-15-02 require Federal agencies to fulfill the following six criteria in order to achieve full compliance:

1. Publish an AFR or PAR for the most recent fiscal year and posted that report and any accompanying materials required by OMB on the agency website;
2. Conduct a program specific risk assessment for each program or activity that conforms with Section 3321 note of Title 31 U.S.C.
3. Publish improper payment estimates for all programs and activities identified as susceptible to significant improper payments under its risk assessment.
4. Publish programmatic corrective action plans in the AFR or PAR (if required);
5. Publish annual reduction targets for each program assessed to be at risk and estimated for improper payments (if required and applicable); and
6. Report a gross improper payment rate of less than 10 percent for each program and activity for which an improper payment estimate was obtained and published in the AFR or PAR.

We found in our inspection that the CPSC could not provide a well-supported risk assessment in compliance with provision 2 above, nor did they publish a compliant improper payment estimate as required in provisions 3 & 6 above. As such, we found the CPSC did not comply with provisions 2, 3 and 6 of OMB M-15-02.

Specifically, Kearney noted the following:

**1. Noncompliance (audit documentation [a/d] NFR 2014-01: Noncompliance )**

- In regards to the risk assessment performed by the CPSC for its FY 2014 IPERIA review, Kearney noted that the risk assessment conducted was not consistent with the support provided by CPSC. As such, Kearney could not substantiate the conclusions made on the risk assessments performed by the CPSC.
- The CPSC reported an improper payment estimate in the FY 2014 AFR based on FY 2013 transaction activity. “Concurrent” FY analysis is required unless approved by OMB. The CPSC could not produce an approval to use a different basis for their review year.
- Inconsistencies existed between the documentation of the Standard of Operating Procedure (SOP) for IPERIA review and actual procedures performed for the risk assessment. Specifically, in our review, Kearney noted that the documented procedures received for the risk assessment could not be re-performed by following the procedures listed in its SOP
- There was a lack of evidence of the training provided to the CPSC Finance staff in preparation for the IPERIA review

**2. OMB-Required Disclosures ([a/d] NFR 2014-02: OMB Required Disclosures)**

Although the CPSC made certain disclosures in its AFR of the results of the IPERIA review process, Kearney noted that the CPSC did not adequately address all of the IPERIA disclosure requirements, as required by OMB M-15-02.

- In addition to the disclosures that the CPSC made in its FY 2014 AFR, the CPSC is required to disclose the following:
  - A list of programs and activities for which conducting a payment recapture audit program would not be cost-effective
  - A description of the justifications and analyses used to determine that conducting a payment recapture audit program for these programs and activities was not cost-effective
  - Any decision stating that the CPSC would be unable to conduct a cost-effective payment recapture audit program for certain programs and activities that expend more than \$1M. The decision should be sent to OMB and the CPSC Inspector General (IG) directly and should include any analysis the CPSC used to reach its conclusion.

**MANAGEMENT’S RESPONSE**

The CPSC did not concur with Finding #1 and did concur with Finding #2. The CPSC management has provided a response below to the findings presented in our report. We did not audit CPSC’s response; accordingly, we do not provide any assurance on it.



## INTRODUCTION

### Background

In July 2010, IPERA, which amended IPIA, was enacted to further reduce improper payments. IPERA clarified the programs to be reviewed and expanded improper payments recapture activities. IPERA also required IGs to determine whether an agency is in compliance with IPERA and established additional requirements for agencies that were deemed noncompliant. In April 2011, OMB issued guidance for agencies implementing IPERA requirements in Appendix C, Revised Parts I and II, of OMB Circular A-123, *Management's Responsibility for Internal Control*. The guidance defines the programs and payments that agencies must assess for the risk of improper payments and provides requirements for determining whether the risk of improper payments is significant, developing an estimate of improper payments, performing recapture audit activities, and reporting improper payment activities.

In January 2013, IPERIA<sup>4</sup> was enacted and further amended IPIA by requiring, among other things, that OMB identify high-priority Federal programs for greater levels of oversight and review, provide guidance to agencies for improving estimates of improper payments, and establish a working system for pre-payment and pre-award review.

In their FY 2013 Performance Audit Report, Withum, Smith & Brown, a public accounting firm, concluded that the CPSC was in compliance with IPERA. However, they identified some areas in which the CPSC could improve its process in identifying improper payments. Withum, Smith & Brown's report recommended that the CPSC implement the following actions:

- Enhance the definition of improper payments to include any inadequately supported payments as improper
- Obtain the original source documentation as support. If the CPSC cannot obtain the original source documentation, it should classify these as improper payments
- Ensure that staff members performing the testing are adequately trained in recognizing overpayments indicated by vendor refunds.

In our FY 2014 Performance Audit Report, Kearney concluded that the CPSC was in compliance with IPERA. However, we identified some areas in which the CPSC could improve its process in identifying improper payments. Our report recommended that the CPSC implement the following actions:

- Enhance the level of documentation for the IPERIA process with regards to instruction and performance
- Provide training to those individuals who perform the assessment and review
- Enhance the IPERIA disclosures released in the annual CPSC AFR.

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<sup>4</sup> P.L. No. 112-248

**Objectives**

The purpose of this inspection was to ensure that the CPSC is taking sufficient steps to identify, prevent, and recapture improper payments in accordance with IPERIA. The inspection objective is to determine whether the CPSC is in compliance with IPERIA.

Specifically, this review and resulting report should provide sufficient findings and recommendations to allow it to serve as:

1. A rigorous evaluation of the CPSC's compliance with IPERIA and OMB M-15-02
2. A consistent and understandable mechanism for reporting the results in the format established by the Council of the Inspectors General on Integrity and Efficiency's (CIGIE) *Quality Standards for Inspection and Evaluation* (QSIE) and Generally Accepted Government Auditing Standards (GAGAS)
3. A roadmap that the CPSC can follow to improve its processes.

**Scope**

This inspection covers the IPERIA review performed by the CPSC's Finance staff. The scope of this inspection included transactions identified by the CPSC as meeting the OMB M-15-02 definition of a payment made during FY 2014. In its self-review, the CPSC identified approximately \$98.6M in payments that met the definition of a payment, as defined by OMB M-15-02. Kearney conducted our inspection from February through May 2015 at the CPSC's Headquarters in Bethesda, MD.

**Methodology**

Kearney conducted this review in accordance with CIGIE's QSIE and GAGAS, which require that Kearney obtain sufficient data to provide a reasonable basis for reaching conclusions. These standards also require that Kearney ensure that the evidence supporting findings, conclusions, and recommendations is sufficient, competent, and relevant, such that a reasonable person would be able to sustain the findings, conclusions, and recommendations. Sufficiency of data needed and tests of evidence varied based on the review objectives, findings, and conclusions. Kearney's team designed the inspection to obtain insight into the CPSC's current processes, procedures, and organizational structure regarding compliance with IPERIA requirements.

**RESULTS AND FINDINGS****Risk Assessment**

Kearney conducted this inspection to assess the CPSC's compliance with IPERIA during FY 2014. We found that the CPSC performed program-specific risk assessments for those activities identified as susceptible to significant improper payments. However, Kearney found that the risk assessment performed was not in compliance with the guidance.

Over the past year, the CPSC has made several improvements to its IPERIA review process, to include statistical sampling of all payment activities, centralizing documentation, and documenting a plan for the annual IPERIA review. During our review process, Kearney noted that the CPSC did not adequately address all IPERIA disclosure requirements in its FY 2014 AFR. Kearney also noted that the CPSC still lacks evidence of providing adequate compliance training for its Finance staff with regards to the IPERIA review. Specifically, Kearney noted the following:

- In regards to the risk assessment performed by the CPSC for its FY 2014 IPERIA review, the methods of the risk assessment CPSC conducted were not in compliance with OMB M-15-02
- Lack of documentation available to support the conclusions of the risk assessment
- Lack of evidence of the training provided to the CPSC Finance staff regarding the IPERIA review and compliance with IPERIA and OMB M-15-02
- Inconsistencies were noted between the documented SOP for IPERIA review and actual procedures performed for the risk assessment. The risk assessment submitted by the CPSC for inspection could not be re-performed following the procedures listed in the CPSC's SOP.

The CPSC's methods and procedures of risk assessment do not adequately follow OMB M-15-02 guidelines. Inadequate risk assessment performed may produce inaccurate results for identifying programs that are susceptible to significant improper payments.

Kearney recommends that the CPSC document procedures compliant with OMB M-15-02 for the performance of the risk assessment, perform a robust risk assessment to review and identify programs susceptible to significant improper payments before the improper payments occur, and ensure compliance with OMB M-15-02, specifically addressing the factors in OMB M-15-02, Part I.A.9.bi-bix, and document support for its risk assessment conclusions such that an external independent reviewer can read, understand and verify the conclusions.

### **Improper Payment Estimate**

We also found that the CPSC based their improper payment rate reported in the FY 2014 AFR on FY 2013 transactions. IPERIA requires that the AFR reflect an improper payment estimate based on "concurrent" FY activity and transactions, unless an alternative basis is specifically approved by OMB. As such, the FY 2014 AFR should reflect an improper payment estimate based on FY 2014 transactions and data.

Specifically, Kearney noted the following:

- The improper payment estimate reported in the FY 2014 AFR is based on FY 2013 activity and transactions. This is allowable only with an OMB waiver or documentation of approval to use a "non-concurrent" FY basis. CPSC could not produce an OMB waiver or documentation of approval

Kearney recommends that the CPSC use concurrent financial information for its improper payment estimate or obtain approval from OMB for its departure from OMB M-15-02.

## OMB-Required Disclosures

Although the CPSC improved the disclosures in its AFR of the results of the IPERIA review process, Kearney noted that the CPSC did not adequately address all of the IPERIA disclosure requirements in its FY 2014 AFR, as required by OMB M-15-02:

- In addition to the disclosures that the CPSC made in its FY 2014 AFR, the CPSC should also disclose the following:
  - A list of programs and activities for which conducting a payment recapture audit program would not be cost-effective
  - A description of the justifications and analyses used to determine that conducting a payment recapture audit program for these programs and activities was not cost-effective
  - Any decision stating that the CPSC would be unable to conduct a cost-effective payment recapture audit program for certain programs and activities that expend more than \$1M. The decision should be sent to OMB and the CPSC IG directly and should include any analysis the CPSC used to reach its conclusion.

By not making all disclosures with proper reporting data required by OMB, the CPSC did not provide users and stakeholders with all of the relevant and reliable information about its efforts to prevent, identify, and recover improper payments. AFRs are critical in fulfilling the Government's duty to be accountable for the use of public funds, and AFRs can be used to assess an agency's efficiency and effectiveness in performing activities, such as identifying and recapturing improper payments. The results of an agency's actions related to improper payments should be available not only to Congress and agency management, but also to the general public.

Kearney recommends that the CPSC enhance its existing policies and procedures to ensure that the improper payments information included in its AFR is complete, accurate, and compliant with the relevant guidance. We also recommend the CPSC provides adequate training for its Finance staff to ensure policies and procedures are developed and implemented in compliance for IPERIA review.

Specifically, Kearney recommends that the CPSC discloses the following:

- In an Appendix to its AFR, list the programs and activities for which it has been determined that conducting a payment recapture audit program would not be cost-effective; include a description of the justifications and analysis to determine that conducting a payment recapture audit program for these programs and activities was not cost-effective
- Provide any decision stating that the CPSC would be unable or to conduct a cost-effective payment recapture audit program (or is unnecessary) for certain programs and activities that expend more than \$1M. The decision should be sent to OMB and the CPSC IG directly and should include any analysis the CPSC used to reach its conclusion.

## CONCLUSION

Based on the results and findings noted above, Kearney concludes that the CPSC's FY 2014 IPERIA review is not in compliance with IPERIA 2012 nor with OMB M-15-02.

The CPSC has made significant strides in the development of internal controls for its IPERIA review process. For example, Kearney notes that the documentation is significantly enhanced in the current year and facilitated the external review of the IPERIA review process. In addition, the CPSC performed a robust statistical sampling procedure and developed a very large sample to implement a detective control for improper payment review. Kearney found this statistical sampling technique to be designed and operating effectively as a control over the IPERIA improper payment review.

However, there are improvements the CPSC's management has yet to make with regard to compliance including the documentation of a well-supported risk assessment, the calculation of an improper payment estimate based on concurrent year financial information, and enhancement of AFR disclosures as required by OMB M-15-02. Kearney discussed our recommendations with the CPSC's management, who indicated that the CPSC plans to take the proper actions to remediate the issues noted and will implement policies and procedures to strengthen the IPERIA review program.

**APPENDIX A – ACRONYMS**

<b>Acronym</b>	<b>Definition</b>
a/d	Audit Documentation
AFR	Agency Financial Report
CIGIE	Council of the Inspectors General on Integrity and Efficiency
CPSC	U.S. Consumer Product Safety Commission
FY	Fiscal Year
GAGAS	Generally Accepted Government Auditing Standards
IG	Inspector General
IPERA	Improper Payments Elimination and Recovery Act of 2010
IPERIA	Improper Payments Elimination and Recovery Improvement Act of 2012
IPIA	Improper Payments Information Act of 2002
Kearney	Kearney & Company, P.C.
OIG	Office of Inspector General
OMB	Office of Management and Budget
P.L.	Public Law
QSIE	Quality Standards for Inspection and Evaluation
SOP	Standard Operating Procedures

## APPENDIX B – MANAGEMENT’S RESPONSE

### CPSC Management Response

#### Introduction

CPSC Management is pleased to accept your audit results on the agency’s implementation of the requirements of the Improper Payments Elimination and Recovery Improvement Act of 2012 (IPERIA). The agency’s IPERIA improvements in response to your prior year audit are clearly reflected in the audit report. We are also pleased to accept your assessment that the CPSC does exhibit controls and addresses improper payments after they occur, and that there is substantial support for our conclusion that the improper payment error rate for the agency was exceedingly low (zero as reported in the FY 2014 Agency Financial Report (AFR)).

Your report included two findings. The agency does not agree to the finding and recommendations in #1. The agency does agree to finding and recommendations in #2. A detailed explanation follows.

#### Finding #1: Noncompliance

We do not concur with the findings of noncompliance with IPERIA and OMB M-15-02 under the provisions of no. 2, 3 and 6 below. Of the six criteria required to achieve full compliance, only 1, 2, and 6 are applicable to CPSC and we complied with all of them. Criteria no. 3 is not required because none of the CPSC payment activities met the criteria for susceptible to significant improper payment as defined by OMB M-15-02.

1. Publish an AFR or PAR for the most recent fiscal year and posted that report and any accompanying materials required by OMB on the agency website.
2. Conduct a program specific risk assessment for each program or activity that conforms with Section 3321 note of Title 31 U.S.C. *et seq.*
3. Published improper payment estimates for all programs and activities identified as susceptible to significant improper payments under its risk assessment *(if applicable)*.
4. Published programmatic corrective actions plans in the AFR or PAR *(if applicable)*.
5. Published, and is meeting, annual reduction targets for each program assessed to be at risk and estimated for improper payments (if required and applicable), and
6. Reported a gross improper payment rate of less than 10 percent for each program and activity for which an improper payment estimate was obtained and published in the AFR or PAR.

#### *Program Specific Risk Assessment*

Under compliance criteria no. 2, CPSC followed the requirements identified by OMB in Memorandum 15-02 *Appendix C to Circular No. A-123, Requirements for Effective Estimation and Remediation of Improper Payments*. The CPSC prepared both a qualitative risk assessment based on the risk factors identified in OMB M-15-02, Part I.A.9 Step1b1-bix and a quantitative risk assessment based on a statistical sample. The results of the quantitative risk assessment demonstrated zero improper payments and *validate and support the conclusions of the qualitative risk assessment* that concluded low risk for improper payment. The results of the program specific risk assessment are summarized in the FY 2014 Agency Financial Report, page 60, Table 1. In Management’s view, condition two is met and evidenced. CPSC was not

required, and did not perform Step 2 of OMB M-15-02, Part I.A.9 Step2, which is to obtain a statistically valid estimate of improper payment on its payment activities susceptible to significant improper payment which is both 1.5% and \$10M of all program payments. CPSC did not meet the 1.5% and \$10M threshold necessary for performing Step 2.

IPERIA and OMB M-15-02 criteria do not include documentation for risk assessments as one of the compliance criteria. The CPSC provided the Auditor with the CPSC Improper Payment Plan, Standard Operating Procedure DB 06 *Improper Payment Review Process and the results of the quantitative risk assessment on February 26, 2015*. As noted by the Auditor, the CPSC has made several improvements on the centralization of documentation and enhanced documentation for performance of the annual IPERIA review. The agency is committed to making improvements to its internal policies and procedures as necessary so that they are clearer to internal and external stakeholders.

IPERIA and OMB M-15-02 criteria do not include training as a compliance requirement CPSC employees professional accountants that perform the annual IPERIA review. As the audit result recognizes, the CPSC was able to provide substantial support for its conclusions in the FY 2014 AFR of a 0% improper payment error rate as evidenced in the program specific risk assessment. CPSC is committed to maintaining a highly competent staff to perform the IPERIA review, and will provide staff training to address skill gaps, should any specific gaps be identified.

#### *Improper Payment Estimate - FY 2014 vs FY 2013 Data*

CPSC's Step 1 program specific risk assessment was conducted using FY 2013 data. OMB M-15-02 provides no guidance, and has no notification and approval requirement for using non-concurrent data in performing the risk assessment for Step 1. CPSC is in compliance with the guidance. The OMB notification and approval requirement only applies to Step 2, whereby an agency must request approval from OMB to use a different 12-month reporting period for estimating improper payments in a given program (OMB M-15-02, Part I.A.15). Since CPSC did not identify any payment activities susceptible to significant improper payments, it was not necessary to perform Step 2 of OMB M-15-02, "Obtain a statistically valid estimate of the annual amount of improper payments..." The OMB notification and approval requirement in Step 2 was subsequently not triggered and CPSC was not required to request OMB approval.

#### **Finding #2: OMB-Required Disclosures**

We concur with the finding and recommendation. CPSC will improve the disclosure in the AFR and will provide to the IG and OMB the decision and analysis on cost-effective recapture programs in future reporting cycles.

#### **Closing**

We appreciate the efforts and leadership of the Office of the Inspector General (OIG) and of the auditors under contract to the OIG that performed this audit. Please convey our appreciation to your team for the professionalism and collegiality exhibited during this audit.