



THE U.S. CONSUMER PRODUCT SAFETY COMMISSION

*Report on the Performance Audit of Internal Controls over Contract
Management and Administration for Fiscal Year 2016*

Report Date: June 1, 2017

**KEARNEY &
COMPANY**

*Point of Contact:
Jeff Green, Senior Partner
1701 Duke Street, Suite 500
Alexandria, VA 22314
703-931-5600, 703-931-3655 (fax)
jgreen@kearneyco.com*

Kearney & Company's TIN is 54-1603527, DUNS is 18-657-6310, Cage Code is 1SJ14.

Vision Statement

We are agents of positive change striving for continuous improvements in our agency's management and program operations.

Statement of Principles

We will:

Work with the Commission and the Congress to improve program management;

Maximize the positive impact and ensure the independence and objectivity of our audits, investigations, and other reviews;

Use our investigations and other reviews to increase Government integrity and recommend improved systems to prevent fraud, waste, and abuse;

Be innovative, question existing procedures, and suggest improvements;

Build relationships with program managers based on a shared commitment to improving program operations and effectiveness;

Strive to continually improve the quality and usefulness of our products;
and

Work together to address Government-wide issues.



**OFFICE OF INSPECTOR GENERAL
CONSUMER PRODUCT SAFETY COMMISSION**

TO: Ann Marie Buerkle, Acting Chairman
Robert S. Adler, Commissioner
Elliot F. Kaye, Commissioner
Joseph Mohorovic, Commissioner
Marietta S. Robinson, Commissioner

FROM: Christopher W. Dentel, Inspector General

DATE: July 25, 2017

SUBJECT: Audit of the CPSC's Contract Management Process

Today more than ever, the government must ensure that it spends money wisely and eliminates waste and abuse of taxpayer dollars. With more than one out of every six dollars of Federal government spending going to contractors, it is imperative that contract actions result in the best value for the taxpayer. Much attention has historically been given to the procurement process, the methodology by which a contract is awarded. Much less attention has been paid to the management of those contracts after award. Put most simply, historically the government has focused far more attention on the processes governing who will be selected to perform the contract than on the processes determining whether or not the government was receiving that for which it had contracted.

The CPSC OIG retained the services of Kearney & Company, P.C. (Kearney), an external audit firm, to conduct a performance audit of the Consumer Product Safety Commission's (CPSC) administration and management of contracts. The objectives of the audit were to ascertain whether the CPSC had established and implemented effective internal controls to guide its contract management process. Additionally, as part of the objective, Kearney evaluated whether the contract monitoring process utilized by the CPSC adhered to applicable Federal laws and regulations.

Kearney concluded that the CPSC did not have an effective system of internal controls implemented or operating effectively over its FY 2016 contract management process. Additionally, Kearny found that the contract monitoring process used by the CPSC did not comply with applicable laws and regulations. Specifically, Kearney determined that the CPSC's contracting officers did not have a process in place to adequately monitor the administration of their assigned contracts. This occurred because the CPSC's policies and practices were not consistent with Federal regulations and internal control standards.

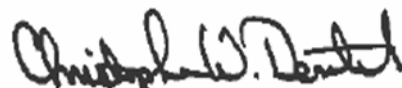
Kearney provided management with copies of the proposed findings and recommendations throughout the audit process. A draft report was provided to management prior to the exit conference. Management raised a number of concerns throughout the audit process, all of which were addressed at or before the exit conference.

Ultimately, management concurred with all of the 17 recommendations made in the attached report. When implemented, these recommendations will improve the CPSC's internal control over contract management and administration.

In accordance with OMB A-50, in the next 30 calendar days, CPSC management will be providing us with a corrective action plan specifying the actions necessary to implement each recommendation.

In connection with the contract, we reviewed Kearney's report and related documentation and inquired of its representatives. Our review, as differentiated from an audit in accordance with generally accepted government auditing standards, 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 generally accepted government auditing standards.

Thank you for the courtesy and cooperation extended to my contractor during the audit. If you have any questions please feel free to contact me.

A handwritten signature in black ink, appearing to read "Christopher W. Dentel". The signature is written in a cursive, slightly slanted style.

CHRISTOPHER W. DENTEL
Inspector General

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OBJECTIVES

The U.S. Consumer Product Safety Commission (CPSC) Office of Inspector General (OIG) engaged Kearney & Company, P.C. (defined as “Kearney,” “we,” and “our” in this report) to perform an audit of CPSC’s fiscal year (FY) 2016 contract/acquisitions management process for its firm-fixed-price (FFP) contracts. The objective of this engagement was to ascertain whether CPSC has established and implemented effective internal controls to guide its contract/acquisitions management process for its FFP contracts, including those that are definite delivery, definite quantity and indefinite delivery, indefinite quantity. Additionally, as part of the objective, Kearney determined whether the contract monitoring process utilized by CPSC adhered to applicable Federal laws and regulations.

BACKGROUND

The Office of the Financial Management, Planning, and Evaluation’s Office of Procurement Services (FMPS) administers CPSC’s acquisition of goods and services. The Director of FMPS reports to the Chief Financial Officer in the Office of Financial Management, Planning, and Evaluation and is supported by approximately nine full-time staff. The CPSC Executive Director also serves as the Chief Acquisition Officer and is responsible for oversight of the contract management process.

Through the use of the Procurement Information System Management (PRISM), FMPS administers and monitors various contracts and acquisition methods. According to FMPS, CPSC defines its contracts within the scope of the Federal Acquisition Regulation (FAR), Part 16. According to the FAR, Part 16.101, “contract types are grouped into two broad categories: fixed-price contracts and cost-reimbursement contracts.”

In 2016, FMPS asserted compliance with the U.S. Government Accountability Office (GAO) GAO-14-704G, *Standards for Internal Control in the Federal Government* (Green Book) to the CPSC OIG.

CRITERIA

Kearney used the following criteria established by the Federal Government to test CPSC’s FY 2016 contract management process.

Exhibit 1: Federal Government Criteria

Law/Regulation Title	Description	Last Date Updated
Green Book, issued by the Comptroller General of the United States	Establishes an internal control framework for the Federal Government	9/2014
GAO-05-218G, <i>Framework for Assessing the Acquisition Function at Federal Agencies</i>	Provides a high-level framework to perform qualitative assessments of the acquisition function at Federal agencies	9/2005

Law/Regulation Title	Description	Last Date Updated
(Framework), issued by the Comptroller General of the United States	and states	
FAR	Establishes uniform policies and procedures for acquisition by all executive agencies	Varies
CPSC’s Directive 0340.4, <i>Delegation of Contracting Officer Authority</i>	Establishes agency procedures for delegating Contracting Officers (CO)	2/2016
CPSC Order 1522.1, Appendix H, <i>Contract Performance Monitoring and Reporting</i>	Establishes agency procedures for contract performance monitoring and reporting	Not Dated

The GAO Green Book was the primary criteria used for testing purposes. According to the Green Book, “[i]nternal control is a process effected by an entity’s oversight body, management, and other personnel that provides reasonable assurance that the objectives of an entity will be achieved.” There are three internal control categories:

- **Operations:** Effectiveness and efficiency of operations
- **Reporting:** Reliability of reporting for internal and external use
- **Compliance:** Compliance with applicable laws and regulations.

GAO identifies these categories as “distinct” but also “overlapping,” meaning that an internal control objective can fall into more than one category.

Green Book subdivides internal controls into five components and 17 principles.

Exhibit 2: Internal Control Components and Principles

Internal Control Component	Internal Control Principle
Control Environment	1. Demonstrate commitment to integrity and ethical values 2. Exercise oversight responsibility 3. Establish structure, responsibility, and authority 4. Demonstrate commitment to competence 5. Enforce accountability
Risk Assessment	6. Define objectives and risk tolerances 7. Identify, analyze, and respond to risk 8. Assess fraud risk 9. Analyze and respond to change
Control Activities	10. Design control activities 11. Design activities for information systems 12. Implement control activities
Information and	13. Use quality information

Internal Control Component	Internal Control Principle
Communication	14. Communicate internally 15. Communicate externally
Monitoring	16. Perform monitoring activities 17. Remediate deficiencies

Green Book states that “the five components of internal control must be effectively designed, implemented, and operating, and operating together in an integrated manner, for an internal control system to be effective.” Further, “[t]he 17 principles support the effective design, implementation, and operation of the associated components and represent requirements necessary to establish an effective internal control system.” Therefore, if one “principle or component is not effective, or the components are not operating together in an integrated manner, then an internal control system cannot be effective.”

AUDIT RESULTS

Based on Green Book requirements, we concluded that CPSC did not have a system of internal controls implemented or operating effectively over its FY 2016 contract management process.

We attributed many of the issues that we identified to lack of adequate or effective policies and procedures.

Exhibit 3: Overall Results of Internal Control Audit

GAO Component	Testing Results	Reference to Finding
Control Environment	Did Not Pass	Finding 1 and Finding 8
Risk Assessment	Did Not Pass	Finding 3
Control Activities	Did Not Pass	Finding 4 and Finding 5
Information and Communication	Did Not Pass	Finding 6 and Finding 7
Monitoring	Did Not Pass	Finding 2
Are all Components operating together in an integrated manner?	Did Not Pass	All Findings

Additionally, the contract monitoring process used by CPSC did not comply with applicable laws and regulations. Specifically, Kearney determined that FMPS COs did not have a process in place to monitor the Contracting Officer’s Representative (COR) administration of assigned contracts. This condition occurred because FMPS policies and practices were not consistent with Federal regulations and internal control standards.

FINDINGS

Finding 1: Lack of Effective Delegation

Kearney determined that FMPS COs did not assign responsibility or delegate authority in accordance with FAR requirements, internal CPSC policies, and the Green Book. Specifically, COs assigned responsibility for contract administration activities to the COR without authority to do so. Kearney evaluated eight FMPS CO warrants and none included the authority to re-delegate.

Kearney noted that CPSC provided a written delegation to CORs through Local Clause 5, which is in every contract. However, this written delegation was not in accordance with CPSC policy. Part 1.602.2(d) of the FAR requires agencies to “[d]esignate and authorize in writing and in accordance with agency procedures, a contracting officer’s representative.”

CPSC’s Directive 0340.4, *Delegation of Contracting Officer Authority*, establishes procedures to appoint COs:

[CO appointments are] to be made in writing on a Standard Form 1402, ‘Certificate of Appointment,’ also referred to as a ‘warrant.’ The delegation and certification must be made to an individual, not a position, and must state any limitation (i.e., dollar thresholds) and specific responsibilities (i.e., authority to delegate). Only those individuals with written authority to delegate may delegate contracting officer authority.

Further, some CORs stated they were not aware of their specific responsibilities or the existence of Local Clause 5. None of the CORs was aware that they had not been delegated responsibility to approve invoices. According to the Green Book, Principle 3.01: “Management should establish an organizational structure, assign responsibility, and delegate authority to achieve the entity’s objectives.”

This occurred because CPSC did not follow its own procedures regarding delegations, as established in Directive 0340.4, *Delegation of Contracting Officer Authority*.

As a result, the delegation system is invalid because the COR delegation is not made in accordance with FAR Part 1.602.2(d) and agency policy.

We recommend that the Chief Acquisition Officer:

1. Update CO warrants to include specific responsibilities, such as the authority to delegate.
2. Establish COR delegation letters that specifically identify COR rights and responsibilities. These letters should be specific to the contract, signed by both CO and COR, and provided to the contractor. These letters should be maintained in the contract file and be available for inspection and review.

Finding 2: Lack of Monitoring of COR Contract Administration

Kearney determined that FMPS COs did not have a process in place to monitor the COR administration of assigned contracts.

According to Green Book Principles 16.04 and 16.05: “Management monitors the internal control system through ongoing monitoring and separate evaluations” and “[o]ngoing monitoring includes management and supervisory activities.” Further, GAO-05-218G, *Framework for Assessing the Acquisition Function at Federal Agencies*, identifies contract monitoring and oversight as critical success factors.

CPSC relied on CORs to perform post-award contract administration. However, COs did not effectively monitor COR contract administration. FAR Part 1.602-2 states that “[c]ontracting officers are responsible for ensuring performance of all necessary actions for effective contracting, ensuring compliance with the terms of the contract, and safeguarding the interests of the United States in its contractual relationships.”

Five of seven (about 71%) CORs interviewed identified contractor administration practices that were inconsistent with Federal requirements or agency policies. These practices included:

- “Assurance and monitoring not needed”
- “Vendor determine[d] error rates” used to measure contractor performance
- “The invoice act[ed] as acceptance of goods and services”
- Not formally documenting contractor evaluations
- Using other staff, not the COR, to assist in contract administration.

This condition occurred because FMPS policies and practices were not consistent with Federal regulations and internal control standards. Specifically, CPSC implemented policies and practices that conflicted with Federal requirements. According to CPSC Order 1522.1, Appendix H, *Contract Performance Monitoring and Reporting*, “it is the COR’s responsibility to monitor performance after contract award.” There is no mention of monitoring by the CO in that guidance.

Without adequate policies and procedures in place to monitor COR contract administration by the CO, CPSC is at increased risk for contract nonconformance.

We recommend that the Chief Acquisition Officer:

3. Create and implement policies and procedures for COs to periodically monitor COR contract administration files. Procedures should include requirements for documenting the monitoring and any resulting recommendations. This monitoring document should be maintained as part of the contract administration file.
4. Offer training to COs on providing effective oversight of COR contract administration.

Finding 3: Ineffective Risk Assessment

Kearney determined that although FMPS performed a risk assessment, the risks identified did not include all risks known to management and did not align with the control objectives or assessment. A complete risk assessment consists of: 1) defining control objectives; 2) identifying associated risks and defining risk tolerances (as applicable) related to the control objectives; and 3) analyzing risks that could prevent achieving the control objectives. The risk assessment then provides a basis for responding to the risks identified.

According to Green Book, Principle 6, “[m]anagement should define objectives clearly to enable the identification of risks and define risk tolerances[.]” as well as Principle 7, which states that “[m]anagement should identify, analyze, and respond to risks related to achieving the defined objectives.”

However, FMPS management did not relate the control objectives and activities to the identified risks as the basis for the risk assessment. Instead, the risk assessment was a stand-alone document identifying risks that did not correlate to the risk list or control objectives identified in other documents. For example, the risk assessment rated human capital risk associated with the evaluation process as “medium,” although there were no human capital risks identified in the risk list.

Additionally, control gaps existed between the risks identified and the control objectives and activities. For example, FMPS did not identify a control objective or activity related to the validity and authorization of contract closeouts, including de-obligations, although management identified it as a risk. Below are risks identified by management that were not addressed by a control objective and control activity:

- Policies and procedures are not compliant with the Office of Management and Budget, Office of Federal Procurement Policy, and FAR requirements and are not established, appropriately documented, and/or communicated to department or agency personnel
- Unauthorized staff have access to procurement systems and information
- Purchase requests are not properly authorized
- Adjustments to unliquidated obligations are not properly authorized
- Insufficient controls exist to prevent the system from processing duplicate payments.

This condition occurred because FMPS management did not have an effective risk assessment process. Specifically, management did not assess the end-to-end procurement process when defining control objectives and identifying risks and did not include all self-identified risks in its risk assessment process.

Without an effective risk assessment process, CPSC lacks assurance that it has properly identified, accepted, and remediated the risks in the procurement process.

We recommend that the Chief Acquisition Officer:

5. Develop an effective risk assessment process which identifies, analyzes, and responds to all self-identified risks in the procurement process.

Finding 4: Non-Compliance with the Federal Acquisition Regulation

CPSC does not have effective procedures in place to ensure that all contracts were awarded and administered in accordance with the FAR. In our testing of contract files, Kearney found that nine of 45 (20%) contracting office files did not contain one or more FAR requirements.

Specifically:

- **Lack of Sufficient Approval for Acquisition Plans** – Two of 45 contract files (about 4%) did not provide evidence that CPSC personnel obtained required approvals for acquisition plans (FAR Parts 7.103 and 7.105)
- **Lack of Evidence of Independent Government Cost Estimate (IGCE)** – Seven of 45 contract files (about 16%) did not provide evidence of the completion of an IGCE prior to award (FAR Parts 4.803(a)(7) and 4.803((a)(7))
- **Lack of Evidence that Representations and Certifications were Completed** – Three of 45 contract files (about 7%) did not provide evidence of the agency obtaining the proper representations and certifications via the System for Award Management (SAM) (FAR Parts 4.1201 and 4.803((a)(11))
- **Lack of Evidence of Written Notice to Contractor when an Option was Exercised** – One of 45 contract files (about 2%) did not provide evidence that the CO provided written notification to the contractor within a specified time period in accordance with the terms of the contract (FAR Part 17.207).

FAR Part 4.803 itemizes the 42 items required in all contracting office contract files. Additionally, FAR Part 4.803 itemizes the 20 items required in all program office contract administration files.

This condition occurred because FMPS did not make file review a priority in its processes.

Without effective procedures to ensure compliance with the FAR documentation requirements, CPSC remains at risk for unauthorized procurements, substandard services, limited competition, and an increased risk of fraudulent activity.

We recommend the Chief Acquisition Officer:

6. Review all agency procurement policies against the requirements of the FAR and update policies to confirm that CPSC procurement policies implement or supplement the FAR.
7. Provide regular training, at least annually, to all COs on the FAR documentation requirements.

Finding 5: Lack of Assurance of Effective General and Application Controls

We determined that FMPS did not ensure that PRISM had effective general and application controls. FMPS uses PRISM to create, manage, and administer contract awards. PRISM is developed by an outside vendor and can be hosted in the vendor's control environment. The vendor obtained a Statement on Standards for Attestation Engagements (SSAE) No. 16¹ opinion for PRISM hosted in the vendor's environment to demonstrate effective internal controls over PRISM. However, CPSC did not host PRISM in the vendor's control environment; thus, the vendor's SSAE-16 opinion was invalid for CPSC's system.

According to Green Book, Principle 11.01, "[m]anagement should design the entity's information system and related control activities to achieve objectives and respond to risks."

Further, GAO-05-218G, *Framework for Assessing the Acquisition Function at Federal Agencies*, states: "General and application controls over computer systems are interrelated. General control supports the functioning of application control, and both are needed to ensure complete and accurate information processing."

This condition occurred because CPSC did not have a process in place to evaluate the reliability of PRISM general and application controls in FY 2016 to safeguard CPSC's version of PRISM.

As a result, CPSC may not be effectively safeguarding PRISM and the data resident on the system in a mission-critical financial application.

We recommend that the Chief Acquisition Officer:

8. Obtain an attestation or audit of PRISM general and application controls routinely, preferably annually, and implement the resulting recommendations.
9. Integrate PRISM into the CPSC information technology risk management program.

Finding 6: Ineffective Coordination between COs and CORs during Contract Administration

Kearney determined that FMPS did not effectively communicate with CORs during post-award contract administration.

According to Green Book, Principle 14.03: "Management communicates quality information down and across reporting lines to enable personnel to perform key roles in achieving objectives, addressing risks, and supporting the internal control system. In these communications, management assigns the internal control responsibilities for key roles."

Kearney conducted interviews with seven CORs selected based on contract volume, contract dollar amount, and contracts that were tested for compliance to the FAR. While overall results

¹ SSAE-16 has been replaced by SSAE-18 for all reports dated on or after May 1, 2017.

indicated open communication during the initial phases of the procurement process, six of seven CORs (about 86%) indicated they have concerns about their roles and responsibilities during the contract administration phase of the acquisition process.

FMPS did not effectively communicate COR responsibilities, provide templates, or offer training to assist CORs in contract administration. The Director of FMPS did not develop COR-specific guidance or make use of templates mandatory because she believed sufficient information existed to guide CORs. Additionally, some CORs indicated that they were instructed not to communicate directly with COs or FMPS personnel on routine contracting issues. Based on the results of our COR interviews, we identified the following issues related to communication. Specifically:

- FMPS did not communicate sufficient guidance or tools to CORs to administer contracts
- FMPS did not adequately communicate with CORs to ensure that the CORs were aware of their roles and responsibilities during the contract administration phase.

According to the GAO Acquisition Framework, stakeholders who clearly communicate their needs or work together facilitate a more effective acquisition function. In addition, the Framework states “The role of the acquisition function does not end with the award of contracts. Acquisitions that help the agency meet its needs require continued involvement throughout contract implementation and close-out.”

This condition occurred because of a lack of available tools, templates, policies, and procedures regarding effective communication between FMPS staff and CORs. As a result, CPSC risks ineffective contract administration.

We recommend that FMPS management:

10. Develop and implement tools, templates, policies, and procedures related to effective communication between COs and CORs to use during contract administration.
11. Develop and provide training on the tools, templates, policies, and procedures for COs and CORs developed in the prior recommendation.

Finding 7: Lack of Internal Controls Over Data

Kearney determined that FMPS management did not have a process to assess and evaluate the quality of the data input into PRISM.

According to Green Book, Principle 13.05: “Quality information meets the identified information requirements when relevant data from reliable sources are used. Quality information is appropriate, current, complete, accurate, accessible, and provided on a timely basis.”

In its assertion to the OIG, FMPS provided a schedule of all procurement actions for FY 2016 as of June 30, 2016. Kearney attempted to reconcile the schedule provided with automated data

obtained from PRISM. However, the totals did not match. FMPS eventually provided the following four ad hoc reports created for this audit:

- FY 2016 All Awards
- FY 2016 Award Funding
- FY 2016 All Requisitions
- FY 2016 Awarded Actions.

Although we could not confirm the completeness and the accuracy of the data, this data represented CPSC's only contract data available to support new obligations and vendor payments. FMPS personnel could not provide a control total for FY 2016 procurements; without a control total, this population may not be complete.

Further, FMPS personnel were unfamiliar with the data within the automated system and did not have procedures in place to evaluate and monitor the quality of the data, monitor high-risk indicators (i.e., sole source procurements), or use the data in the contract management process and overall procurement planning.

In addition to problems noted with data totals, Kearney identified other data reliability issues. For example, FMPS personnel identified a procurement as undefinitized in PRISM although the contract had already been definitized based on our analysis of the contract file.

The GAO Acquisition Framework identifies data stewardship as a key for success:

Data stewardship ensures that data captured and reported are accurate, accessible, timely, and usable for acquisition decision making and activity monitoring. Effective stewardship provides the structure, oversight, and assurance that data can be accurately translated into meaningful information about organizational activities. Taking the time to manage quality of data ultimately helps support the agency's acquisition management needs.

This condition occurred because FMPS did not have policies and procedures in place to ensure data reliability.

Without a reliable and well-controlled data and supporting audit trail, FMPS increases the possibility of relying on inaccurate data to make decisions and providing management with inaccurate or incomplete information for decision-making.

We recommend that the Chief Acquisition Officer:

12. Develop policies and procedures for evaluating and monitoring the quality of data. Procedures should use data to identify and evaluate high-risk indicators and realize efficiencies in the contract management process.
13. Provide training to COs and specialists on inputting data and evaluating the accuracy of the data.

Finding 8: Ineffective Oversight for the Acquisition Function

Kearney determined that management did not effectively oversee CPSC's acquisition function.

According Green Book, Principle 3.06:

To achieve the entity's objectives, management assigns responsibility and delegates authority to key roles throughout the entity. A key role is a position in the organizational structure that is assigned an overall responsibility of the entity. Generally, key roles relate to senior management positions within an entity.

CPSC appointed the Executive Director as the Chief Acquisition Officer. In addition to the duties of the Chief Acquisition Officer, the Executive Director acts as the chief operating manager of the agency, supporting the development of the agency's budget and operating plan before and after Commission approval, as well as managing the execution of those plans. The procurement office is a sub-unit of the Office of Financial Management and Planning. Thus, there are several layers of management between the Chief Acquisition Officer and the actual acquisition function.

The GAO Acquisition Framework states that one of the four cornerstones for an effective acquisition function is its appropriate organizational alignment and leadership. The Framework also notes that management of acquisition is a key role, and the individual should focus on acquisition as a primary responsibility. Acquisition activities include evaluating the performance of acquisition programs, advising the agency head on business strategies, and directing acquisition policy for the agency.

This condition occurred because the CPSC's Chief Acquisition Officer did not manage CPSC's acquisition function as a primary duty, in addition to the fact that there are multiple levels between the acquisition staff and the Chief Acquisition Officer.

As a result, CPSC did not have effective oversight of its acquisition function to ensure alignment with its mission and needs.

We recommend that the Chief Acquisition Officer:

14. Evaluate the most effective placement of FMPS, to include the relationship between FMPS staff and the Chief Acquisition Officer, and document the results of the evaluation.

CONCLUSION

Based on the audit results previously noted, Kearney concludes that CPSC did not establish and implement an effective internal control system as part of its FY 2016 contract management process for FFP contracts. Additionally, the contract monitoring process utilized by CPSC did not adhere to applicable laws and regulations. Kearney discussed our audit results with the CPSC’s management in the month of June. The table below provides the index of audit recommendations.

Exhibit 4: Index of Audit Recommendations

Finding	Recommendation
Finding 1	1. Update CO warrants to include specific responsibilities, such as the authority to delegate.
	2. Establish COR delegation letters that specifically identify COR rights and responsibilities. These letters should be specific to the contract, signed by both CO and COR, and provided to the contractor. These letters should be maintained in the contract file and be available for inspection and review.
Finding 2	3. Create and implement policies and procedures for COs to periodically monitor COR contract administration files. Procedures should include requirements for documenting the monitoring and any resulting recommendations. This monitoring document should be maintained as part of the contract administration file.
	4. Offer training to COs on providing effective oversight of COR contract administration.
Finding 3	5. Develop an effective risk assessment process which identifies, analyzes, and responds to all self-identified risks in the procurement process.
Finding 4	6. Review all agency procurement policies against the requirements of the FAR and update policies to confirm that CPSC procurement policies implement or supplement the FAR.
	7. Provide regular training, at least annually, to all COs on the FAR documentation requirements.
Finding 5	8. Obtain an attestation or audit of PRISM general and application controls routinely, preferably annually, and implement the resulting recommendations.
	9. Integrate PRISM into the CPSC IT risk management program.
Finding 6	10. Develop and implement tools, templates, policies, and procedures related to effective communication between COs and CORs to use during contract administration.
	11. Develop and provide training on the tools, templates, policies, and procedures for COs and CORs developed in the prior recommendation.
Finding 7	12. Develop policies and procedures for evaluating and monitoring the quality of data. Procedures use data to identify and evaluate high-risk indicators and realize efficiencies in the contract management process.

Finding	Recommendation
	13. Provide training to COs and specialists on inputting data and evaluating the accuracy of the data.
Finding 8	14. Evaluate the most effective placement of FMPS, to include the relationship between FMPS staff and the Chief Acquisition Officer, and document the results of the evaluation.

APPENDIX A – SCOPE AND METHODOLOGY OF THE AUDIT

Scope

This report contains the results of our audit of the internal controls related to CPSC’s contract management process. Kearney conducted our audit from September 2016 through June 2017 at CPSC’s Headquarters in Bethesda, MD.

We reviewed 1,784 FY 2016 FMPS procurement actions from the CPSC’s acquisition system, PRISM. Using this data, Kearney identified 504 unique contracts (total awards valued at about \$65.1 million). We performed a risk assessment to identify contracts with an increased risk for non-compliance and procurement fraud. Afterward, we calculated a risk score for each contract and used that score to judgmentally select 45 unique contracts valued at \$25.3 million as part of our audit. We obtained contract files from FMPS for each sample item and used the contents of those files to evaluate compliance.

We also used the contract data and COR training records to judgmentally select FMPS and COR interviewees. During the interviews, we discussed training requirements, job responsibilities, and FMPS customer service.

Finally, we evaluated FMPS operations and key documentation against each Green Book component to include the control environment, risk assessment, control activities, information and communication, and monitoring.

Methodology

Kearney conducted this audit in accordance with GAO’s Generally Accepted Government Auditing Standards. Those standards require that Kearney obtain sufficient, appropriate evidence to provide a reasonable basis for findings and conclusions. Sufficiency and appropriateness of evidence needed and tests of evidence will vary based on the audit objectives, findings, and conclusions. Kearney designed the audit to obtain insight into CPSC’s current contract management processes and procedures, as well as to assess compliance with the Green Book, GAO Acquisition Framework, and the FAR. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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

1. A conclusion and list of findings regarding the effectiveness of internal controls established for CPSC’s contract management process and the agency’s remediation and status of prior audit findings issued
2. A consistent and understandable mechanism for reporting the results of Kearney’s assessments in the format established by the standards detailed above
3. A roadmap that CPSC can follow in improving its processes.

Data Reliability Assessment

We assessed the reliability of computer-processed data from PRISM to determine if the contract data was sufficiently reliable. FMPS personnel used PRISM to write and track all procurement activities associated with CPSC's procurement processes.

We performed testing on automated contracting data obtained from PRISM to assess the contract automated audit trail maintained by FMPS. FMPS personnel were unable to identify available data fields within PRISM or provide a control total for awards made in FY 2016. Without an FMPS-provided control total identifying total procurements awarded and the dollar value associated with those procurements, Kearney was unable to confirm whether the data was complete.

Additionally, we compared automated contract records to hardcopy source documents and identified other data reliability issues that impacted FMPS' ability to effectively manage and monitor CPSC procurements. For example, FMPS personnel identified a procurement as undefinitized in PRISM although the contract had already been definitized based on our review of the contract file.

However, this data represented FMPS' only contract data available to support new obligations and vendor payments. Kearney developed recommendations to improve the reliability of the automated audit trail in this report.

APPENDIX B – INDEX OF AUDIT RECOMMENDATIONS

Finding	Recommendation
Finding 1	3. Update CO warrants to include specific responsibilities, such as the authority to delegate.
	4. Establish COR delegation letters that specifically identify COR rights and responsibilities. These letters should be specific to the contract, signed by both CO and COR, and provided to the contractor. These letters should be maintained in the contract file and be available for inspection and review.
Finding 2	7. Create and implement policies and procedures for COs to periodically monitor COR contract administration files. Procedures should include requirements for documenting the monitoring and any resulting recommendations. This monitoring document should be maintained as part of the contract administration file.
	8. Offer training to COs on providing effective oversight of COR contract administration.
Finding 3	9. Develop an effective risk assessment process which identifies, analyzes, and responds to all self-identified risks in the procurement process.
Finding 4	10. Review all agency procurement policies against the requirements of the FAR and update policies to confirm that CPSC procurement policies implement or supplement the FAR.
	10. Provide regular training, at least annually, to all COs on the FAR documentation requirements.
Finding 5	11. Obtain an attestation or audit of PRISM general and application controls routinely, preferably annually, and implement the resulting recommendations.
	12. Integrate PRISM into the CPSC IT risk management program.
Finding 6	11. Develop and implement tools, templates, policies, and procedures related to effective communication between COs and CORs to use during contract administration.
	12. Develop and provide training on the tools, templates, policies, and procedures for COs and CORs developed in the prior recommendation.
Finding 7	15. Develop policies and procedures for evaluating and monitoring the quality of data. Procedures use data to identify and evaluate high-risk indicators and realize efficiencies in the contract management process.
	16. Provide training to COs and specialists on inputting data and evaluating the accuracy of the data.
Finding 8	17. Evaluate the most effective placement of FMPS, to include the relationship between FMPS staff and the Chief Acquisition Officer, and document the results of the evaluation.

APPENDIX C – MANAGEMENT’S VIEWS ON CONCLUSIONS AND FINDINGS

This Appendix provides the complete text of management’s response. Kearney also discussed our audit results with the CPSC’s management on July 6, 2017. Management generally agreed with the audit findings and recommendations. The verbatim comments follow.



UNITED STATES
CONSUMER PRODUCT SAFETY COMMISSION
4330 EAST WEST HIGHWAY
BETHESDA, MD 20814

Memorandum
OFFICE OF THE EXECUTIVE DIRECTOR
PATRICIA H. ADKINS

Date: June 22, 2017

TO : Nichole Gable
Kearney & Company

FROM : Patricia H. Adkins
Executive Director

SUBJECT : Notification of Finding and Recommendation NFR No 2017 1.2.1 Lack of Effective Delegation

Management generally agrees with the finding. Consistent with a previous management response to another audit (IPERA), management believes CORs were delegated invoice approval authority. However, management acknowledges that there are misalignments between agency policy and agency practice. The OIG recommendations will improve alignment and make our policies, procedures and practices more clear. Management has already taken the recommended corrective actions.

1. All CO warrants have been revised to include specific responsibilities, such as the authority to delegate.
2. New COR delegation letters have been issued, specifically identifying COR rights and responsibilities, specific to the contract, signed by both the CO and the COR and distributed to the contractor. The new letters of designation are maintained in the contract file and available for inspection and review.

cc: Chris Dentel, OIG
Mary Meiers, OIG
DeWane Ray, OEX
Monica Summitt, OEX



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OFFICE OF THE EXECUTIVE DIRECTOR
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Date: June 22, 2017

TO : Nichole Gable
Kearney & Company

FROM : Patricia H. Adkins
Executive Director

SUBJECT : Notification of Finding and Recommendation NFR No 2017 2.2.1 Lack of
Monitoring of Contracting Officer Representative (COR) Contract
Administration

Management generally agrees with the finding and recommendations. Management notes that there is existing monitoring performed by the Contracting Officers, specifically the review and issuance of required modifications for options, extensions, renewals, name changes, novation agreements, cure notices, terminations and other contract administration duties. Consistent with the recommendations, Management will implement policies and procedures for Contracting Officers to periodically monitor COR contract administration files and explore training for Contracting Officers on effective oversight of CORs.

cc: Chris Dentel, OIG
Mary Meiers, OIG
DeWane Ray, OEX
Monica Summitt, OEX



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Memorandum
OFFICE OF THE EXECUTIVE DIRECTOR
PATRICIA H. ADKINS

Date: June 29, 2017

TO : Nichole Gable
Kearney & Company

FROM : Patricia H. Adkins
Executive Director

SUBJECT : Notification of Finding and Recommendation
NFR No 2017 3.2.1
Ineffective Risk Assessment

Management concurs generally with the finding and recommendations that the procurement risk assessment could be more effective. The agency has defined control objectives and control activities for the Procurement function through the agency's OMB Circular A-123 Appendix A program. However, the linkage to Management identified risks is not sufficiently clear. Based on the auditor's recommendation, Management can build off of that existing work to more clearly document the relationship among Management identified risks, control objectives and control activities.

cc: Chris Dentel, OIG
Mary Meier, OIG
DeWane Ray, OEX
Monica Summitt, OEX



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Memorandum
OFFICE OF THE EXECUTIVE DIRECTOR
PATRICIA H. ADKINS

Date: June 28, 2017

TO : Nichole Gable
Kearney & Company

FROM : Patricia H. Adkins
Executive Director

SUBJECT : Notification of Finding and Recommendation
NFR No 2017 4.2.1
Non-Compliance with Federal Acquisition Regulation

Management concurs generally with the finding and recommendations that some contract files were not sufficiently documented as specified by the Federal Acquisition Regulation (FAR). Management has requested that the auditor provide the specific contract numbers referenced in the notification of finding, so that Management can make any amendments to those files.

Management will consider the auditor's recommendations and devise corrective actions to strengthen procedures and provide training for Contracting Officers and Contracting Specialists to improve the proper documentation of contract files as specified by the FAR.

cc: Chris Dentel, OIG
Mary Meier, OIG
DeWane Ray, OEX
Monica Summitt, OEX



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Date: June 29, 2017

TO : Nichole Gable
Kearney & Company

FROM : Patricia H. Adkins
Executive Director

SUBJECT : Notification of Finding and Recommendation
NFR No 2017 5.2.1
Lack of Assurance of Effective General and Application Controls

Management concurs generally with the finding and recommendation.

In addition to reviewing the PRISM application controls that are integrated into the CPSC IT risk management program under the agency Federal Information Security Management Act (FISMA) and the Office of Management and Budget's (OMB) Circular A-130 compliance activities for both the General Support System and PRISM, as well as assessing internal controls for PRISM as part of the FY 2017 OMB Circular A-123 Appendix A program, CPSC Management intends to review the newly released Standards for Attestation Engagements (SSAE)-18 to evaluate additional controls that may be appropriate for CPSC to adopt into its existing PRISM controls review practices.

cc: Chris Dentel, OIG
Mary Meier, OIG
DeWane Ray, OEX
Monica Summitt, OEX



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OFFICE OF THE EXECUTIVE DIRECTOR
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Date: June 22, 2017

TO : Nichole Gable
Kearney & Company

FROM : Patricia H. Adkins
Executive Director

SUBJECT : Notification of Finding and Recommendation NFR No 2017 6.2.1
Ineffective Communication between COs and CORs during Contract
Administration.

Management generally agrees with the finding and recommendation that communication could be improved during contract administration between the Contracting Officers and the Contracting Officer Representatives (COR). Management notes there are existing communication practices, specifically, tracking COR training in accordance with OMB guidance and FAI requirements, COR follow-up on contractor performance in accordance with the Contractor Performance Assessment Reporting System (CPARS), collaboration with CORs on preliminary notices for exercising of options, renewals and extensions and periodic on-site training for CORs. Management will consider the auditor's recommendations when implementing corrective actions to improve the post award communication between the Contracting Officers and the CORs.

cc: Chris Dentel, OIG
Mary Meiers, OIG
DeWane Ray, OEX
Monica Summitt, OEX



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Date: June 28, 2017

TO : Nichole Gable
Kearney & Company

FROM : Patricia H. Adkins
Executive Director

SUBJECT : Notification of Finding and Recommendation
NFR No 2017 7-7.2.1
Lack of Internal Controls Over Data

Management concurs generally that the policies and procedures over existing internal controls for acquisition data could be more efficient in the PRISM system. Management will consider the auditors recommendations to further develop policies and procedures to identify and evaluate high-risk indicators within the data when implementing corrective actions over the process. Management notes there are extensive controls in place over the PRISM system, Federal Procurement Data System (FPDS) and Delphi systems used to monitor the quality of data from the obligations to the payment processes for CPSC. The finding does not reflect the established control structure, compensating controls and processes in place over data quality. Management is providing an addendum to this response outlining the control structure described above.

cc: Chris Dentel, OIG
Mary Meier, OIG
DeWane Ray, OEX
Monica Summitt, OEX



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Date: June 28, 2017

TO : Nichole Gable
Kearney & Company

FROM : Patricia H. Adkins
Executive Director

SUBJECT : Notification of Finding and Recommendation
NFR No 2017 8.2.1
Ineffective Oversight for the Acquisition Function

Management concurs generally with the finding and recommendations that oversight of the acquisition function could be improved. Management will look at the existing policies, procedures and internal controls to ascertain whether changes could improve overall compliance and performance of the acquisition program. In addition, Management will assess whether changes can be made to improve access to the Chief Acquisition Officer by the acquisition program. This assessment may look at organizational alignment as recommended by the auditor, and will also include an assessment of other improvements such as increasing the types and frequency of communication between the Chief Acquisition Officer and the existing organization control structure.

cc: Chris Dentel, OIG
Mary Meier, OIG
DeWane Ray, OEX
Monica Summitt, OEX

APPENDIX D – ACRONYMS

Acronym	Definition
CO	Contracting Officer
COR	Contracting Officer’s Representative
CPSC	U.S. Consumer Product Safety Commission
FAR	Federal Acquisition Regulation
FFP	Firm-Fixed-Price
FMPS	Office of the Financial Management, Planning and Evaluation’s Office of Procurement Services
Framework	GAO-05-218G, <i>Framework for Assessing the Acquisition Function at Federal Agencies</i>
FY	Fiscal Year
GAO	U.S. Government Accountability Office
Green Book	GAO-14-704G, <i>Standards for Internal Control in the Federal Government</i>
IGCE	Independent Government Cost Estimate
IT	Information Technology
Kearney	Kearney & Company, P.C.
OIG	Office of Inspector General
PRISM	Procurement Information System Management
SOP	Standard Operating Procedure
SSAE	Statement on Standards for Attestation Engagements

CONTACT US

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Office of Inspector General
Consumer Product Safety Commission
4330 East-West Highway, Room 702
Bethesda MD 20814