



Office of Inspector General

U.S. Consumer Product Safety Commission

Audit of the CPSC's Implementation of FMFIA for FYs 2018 and 2019

May 12, 2021

Report 21-A-08

Vision Statement

We are agents of positive change striving for continuous improvements in our agency's management and program operations, as well as within the Office of Inspector General.

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.

Work together to address government-wide issues.



May 12, 2021

TO: Robert S. Adler, Acting Chairman
Elliot F. Kaye, Commissioner
Dana Baiocco, Commissioner
Peter A. Feldman, Commissioner

FROM: Christopher W. Dentel, Inspector General *Christopher W. Dentel*

SUBJECT: Audit of the CPSC's Implementation of FMFIA for FYs 2018 and 2019

The objective of this audit was to assess the U.S. Consumer Product Safety Commission's (CPSC) compliance with the Federal Managers' Financial Integrity Act (FMFIA) in fiscal years 2018 and 2019 and to evaluate the effectiveness of the CPSC's process to assess internal control over program operations, as reported in the Chairman's Management Assurance Statement, as published in the Agency Financial Report. The Office of Inspector General retained the services of Kearney & Company (Kearney), an independent public accounting firm, to assess the CPSC's compliance with FMFIA. This audit was performed in accordance with generally accepted government auditing standards.

Kearney determined that although the CPSC implemented metrics to monitor the performance of its strategic goals and objectives, it did not establish and implement a formal internal controls program over its operations. Additionally, there is a misalignment between how the CPSC identifies programmatic or operational activities, how it measures the performance of these activities, and how it reports these activities. Without an effective internal control program, the CPSC may not be able to identify and address appropriate risks or measure whether programs are operating as intended. Kearney made seven recommendations to improve the CPSC's internal control program.

In connection with our 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 generally accepted government auditing standards.

In the next 30 calendar days, in accordance with Office of Management and Budget Circular A-50, the CPSC is required to provide me with management's Corrective Action Plan describing the specific actions they anticipate taking to implement each recommendation.

Should you have any questions, please contact me.



*Report on the Performance Audit over Implementation of
FMFIA for FYs 2018 and 2019*

for

Consumer Product Safety Commission

Report Date: May 6, 2021

**KEARNEY &
COMPANY**

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Objective

As requested by the Consumer Product Safety Commission (CPSC) Office of Inspector General (OIG), Kearney & Company, P.C. (defined as “Kearney,” “we,” and “our” in this report) audited the CPSC’s implementation of the Federal Financial Managers’ Integrity Act of 1982 (FMFIA). Kearney conducted this performance audit in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States.

The objective of the performance audit is to assess the CPSC’s fiscal year (FY) 2018 and 2019 compliance with the FMFIA and to evaluate the effectiveness of the CPSC’s process to assess internal control over program operations, as reported in the Chairman’s Management Assurance Statement, as published in the Agency Financial Report (AFR).

Please see *Appendix A* of this report for the scope and methodology of the audit.

Background

The FMFIA requires ongoing evaluations and reports of the adequacy of the systems of internal accounting and administrative control of each executive agency. These reports are to ensure compliance with the FMFIA provide reasonable assurances that:

- (i) obligations and costs are in compliance with applicable law
- (ii) funds, property, and other assets are safeguarded against waste, loss, unauthorized use, or misappropriation
- (iii) revenues and expenditures applicable to agency operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the assets

At the CPSC, this annual report is the Management Statement of Assurance published in the AFR. Office of Management and Budget (OMB) Circular A-123, *Management’s Responsibility for Internal Control*, implements the FMFIA and defines management’s responsibility for internal control in Federal agencies. OMB Circular A-123 requires agencies to establish internal control over their programs, financial reporting, and financial management systems. Agencies also rely on the Government Accountability Office’s (GAO) *Standards for Internal Control in the Federal Government* (Green Book) for guidance in completing the annual FMFIA review.

Audit Results

We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards (GAGAS). Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Conclusion

Kearney determined that the CPSC did not comply with FMFIA for CPSC operations for FYs 2018 and 2019. FMFIA requires agencies to maintain a system of internal controls as prescribed by the GAO Green Book and OMB Circular A-123. Specifically, a misalignment exists between how the CPSC identifies programmatic or operational activities, how it measures the performance of these activities, and how it reports these activities. These “operational activities” were not programs but offices within the CPSC. Additionally, although the CPSC implemented metrics to monitor the performance of its strategic goals and objectives, it did not establish and implement a formal internal controls program over its operations as required by Green Book and OMB Circular A-123.

Findings

Finding #1 – Misalignment of CPSC Programs and/or Activities

Condition: A misalignment exists between how the CPSC identifies programmatic or operational activities, how it measures the performance of these activities, and how it reports these activities. For example, the CPSC identified 16 operational activities related to the OMB Circular A-123 requirement for internal controls over operational programs for FYs 2018 and 2019. These “operational activities” were not programs but offices within the CPSC (e.g., FastTrack is a core program/activity within the CPSC that help achieve the mission, whereas the Office of Information Technology and Technology Services is an office).

For DATA Act reporting purposes during the same time period, the CPSC reported two programs for its File B submission: 1) Consumer Product Safety – Direct and 2) Consumer Product Safety – Reimbursable. For reporting purposes, these categories were directly aligned to how the types of funds are received and not necessarily to what the CPSC, for other purposes, considers a program.

For the Statement of Assurance (SOA) and Government Performance and Results Act reporting during the same time period, the CPSC identified four strategic goals: 1) Workforce; 2) Prevention; 3) Response; and 4) Communication.

Although the strategic goals and objectives aligned to the performance mission of the Commission, these goals and objectives were not directly aligned to program and/or an activity as part of the Commission’s OMB Circular A-123 program and defined by OMB Circular A-11.

Cause: This condition occurred because although the CPSC Order No. 0690.2, *Management Programs*, discussed programs and the importance of programs, it did not provide guidance to identify programs and/or activities consistent with internal controls and SOA reporting requirements. Additionally, programs were assessed at an entity level rather than an operational level, making it difficult to discern whether a program was operating as intended and how programs were actually identified at the CPSC.

Criteria: According to OMB Circular A-11, *Preparation, Submission, and Execution of the Budget*, programs:

Use activities that provide a constructive basis for analyzing and evaluating the estimates. Keep the number of activities to a reasonable minimum without sacrificing clarity. Do not use subactivities (such as projects or recipient institutions), unless the amounts are significant and the breakdown necessary to provide full understanding. The activities should:

- clearly indicate the services to be performed or the programs to be conducted
- finance no more than one strategic goal or objective
- distinguish investment, developmental, grant and subsidy, and operating programs

- relate to administrative control and operation of the agency

GAO's *A Glossary of Terms Used in the Federal Budget Process* provides additional clarity on defining a program and/or activity and states that the purpose of goals and objectives is to evaluate:

Performance to be achieved by a program activity; expresses such goals in an objective, quantifiable, and measurable form; briefly describes the operational processes, skills, technology, and resources required to meet the performance goals; establishes performance indicators to be used in measuring or assessing the relevant outputs, service levels, and outcomes of each program activity; provides a basis for comparing actual program results with the established performance goals; and describes the means to be used to verify and validate measured values.

Effect: Without adequately identifying programs and/or activities, the CPSC may not be able to identify appropriate risks or measure whether programs are operating as intended in order to meet the core mission requirements. This could ultimately lead to mission underperformance and/or failure, while at the same time reporting optimal performance to the public and/or Congress in its AFR.

Recommendations: Kearney recommends that management perform the following:

1. Provide guidance identifying programs and/or activities as a part of its internal guidance and in accordance with achieving its mission requirements.
2. Align programs and/or activities with applicable reporting requirements.
3. Report programs and/or activities in accordance with applicable Federal criteria.

Management's Response: See *Appendix B*.

Finding #2 – Lack of a Formal Internal Controls Program for CPSC Operations

Condition: Although the CPSC implemented metrics to monitor the performance of its strategic goals and objectives, it did not establish and implement a formal internal controls program over its operations.

As noted in Finding #1, a misalignment exists between how the CPSC identifies programmatic or operational activities, how it measures the performance of these activities, and how it reports on these activities. Therefore, we used the strategic goals and objectives reported in the SOA to identify programmatic activities essential to the success of CPSC operations and its mission. As part of our audit, we reviewed three strategic objectives for FYs 2018 and 2019:

- Lead efforts to improve the safety of consumer products before they reach the marketplace (2.2)
- Increase capability to identify and stop imported hazardous consumer products (2.3)
- Minimize further exposure to hazardous consumer products (3.2).

In all cases, except for one, the CPSC reported meeting all goals that aligned to the strategic objectives reviewed. However, the CPSC was unable to provide any documentation related to the identification of risks and internal controls, as well as the assessment and monitoring of those risks and controls for programs related to all three of these strategic objectives. Additionally, evidence did not exist to support the ongoing assessment, monitoring, and corrective action related to these controls. However, based on interviews with individuals responsible for the performance of these programs and strategic objectives, it appeared that some controls may be in place but not formally documented.

Cause: This occurred because managers responsible for CPSC operations were not aware of OMB's requirement to establish and implement a formal internal controls program, nor described what that program should contain. Instead, CPSC program managers relied upon requirements established by its Operating Plan. The Operating Plan established key performance measures that are regularly monitored through Strategic Data Reviews. However, it did not require the CPSC to establish and implement a formal internal control program over its operations or align operational programs to FMFIA reporting requirements.

Further, the CPSC relied upon the Office of Financial Management, Planning, and Evaluation (FMPB) to assess and report on operational risk and controls for FMFIA reporting purposes. The CPSC only has one team member within FMPB who is responsible for assessing and reporting on operational controls, as well as financial and information technology (IT) controls. Additionally, FMPB and managers responsible for CPSC programs did not establish formal lines of communication related to the assessment and monitoring of risks and internal controls related to the CPSC's operations.

Criteria: According to OMB Circular No. A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*, and OMB Circular A-11, *Preparation, Submission, and Execution of the Budget*:

Risk management practices must be forward-looking and designed to help leaders make better decisions, alleviate threats and to identify previously unknown opportunities to improve the efficiency and effectiveness of government operations. Management is also responsible for establishing and maintaining internal controls to achieve specific internal control objectives related to operations, reporting, and compliance...Agency managers must continuously monitor, assess, and improve the effectiveness of internal control associated with those internal control objectives identified as part of their risk profile. This continuous monitoring, and other periodic evaluations, provide the basis for the Agency Head's annual assessment and report on internal control as required by the FMFIA.

The Green Book includes minimum documentation requirements, as follows, that management:

- assesses whether a principle is relevant and supports that determination with documentation that includes the rationale of how, in the absence of that principle, the associated component may be designed, implemented, and operated effectively
- develops and maintains documentation of its internal control system
- documents in policies the internal control responsibilities of the organization
- evaluates and documents the results of ongoing monitoring and separate evaluations to identify internal control issues
- evaluates and documents internal control issues and determines appropriate corrective actions for internal control deficiencies on a timely basis
- completes and documents corrective actions to remediate internal control deficiencies on a timely basis

Effect: Without establishing and implementing a well-designed internal control program, the CPSC may not be able to identify programmatic risks and develop mitigation strategies. Further, a control program that is not institutionalized places the CPSC mission at increased risk of future performance challenges.

Recommendations: Kearney recommends that management perform the following:

4. Provide training to CPSC program managers on how to develop and implement a formal internal controls program in accordance with *Standards for Internal Control in the Federal Government*, OMB Circular A-123, and CPSC policies and procedures.
5. Develop a formal internal controls program over operations for CPSC programs.
6. Evaluate staffing needs within the Office of Financial Management, Planning and Evaluation to support internal controls and FMFIA reporting requirements
7. Establish formal lines of communication between the Office of Financial Management, Planning and Evaluation and CPSC program management for the purpose of assessing and monitoring internal control programs and compliance with FMFIA requirements.

Management's Response: See *Appendix B*.

APPENDIX A – SCOPE AND METHODOLOGY OF THE AUDIT**Scope and Limitations**

This report contains the results of our audit of the implementation of FMFIA for CPSC operations. The scope of this audit consisted of 16 operational activities identified by CPSC related to the OMB Circular A-123 requirement for internal controls over operational programs for FYs 2018 and 2019. However, these “operational activities” were not programs but offices within the CPSC as outlined in Finding #1. Therefore, we coordinated with the OIG to select a nonstatistical sample of three CPSC strategic objectives for FYs 2018 and 2019 that aligned with the CPSC’s mission to assess OMB Circular A-123 implementation at the programmatic level which is required to meet FMFIA requirements. We conducted our review from May 2020 through April 2021.

Methodology and Work Performed

Kearney conducted this audit in accordance with GAGAS, which requires that we obtain sufficient, appropriate evidence to provide a reasonable basis for addressing the audit objective and supporting our findings and conclusions. Sufficiency of the evidence needed and tests of evidence vary based on the audit objective, findings, and conclusions. Kearney designed the audit to obtain insight into the CPSC’s current processes, procedures, and internal controls, as well as to assess compliance with FMFIA. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

Work Related to Internal Controls

We evaluated internal controls related to the implementation of FMFIA for CPSC operations. The design of the program was not compliant with FMFIA requirements and is addressed in Findings #1 and #2.

APPENDIX B – MANAGEMENT'S VIEWS ON CONCLUSIONS AND FINDINGSUNITED STATES
CONSUMER PRODUCT SAFETY COMMISSION
BETHESDA, MARYLAND 20814**Memorandum**

April 20, 2021

TO: Christopher Dentel, Inspector General
Office of the Inspector General

FROM: James Baker, Chief Financial Officer
Office of Planning, Budget, and Evaluation

SUBJECT: Management's Response to the *Audit of CPSC's Implementation of FMFIA - Draft Report*

James D. Baker
Digitally signed by James D. Baker
Date: 2021.04.20 14:48:32 -0400

Management acknowledges the audit report and findings and recommendations. Management is working to improve the overall FMFIA and Statement of Assurance (SoA) process and incorporating steps to link specific programs to a strategic objective or office. Management will continue to review the SoA process and incorporate the recommendations provided.

CPSC has a designated internal controls program within the EXFM office to comply with OMB Circular A-123, *Managements Responsibility for Internal Controls*, and the Government Accountability Office's (GAO) Green Book. Management recognizes that the mapping of internal controls and risk assessment processes across the agency can be improved and more thoroughly documented in parts of the agency.

Management is exploring options for obtaining support in enhancing agency control processes, but notes that the limited availability of fiscal and employee resources imposes a constant constraint and ongoing challenge to the agency in implementing administrative initiatives of this nature.

APPENDIX C – KEARNEY'S EVALUATION OF MANAGEMENT'S COMMENTS

During the Exit Conference, management identified multiple actions that they were taking in response to the audit report. These actions included coordinating with OMB to determine how other small agencies were assessing and monitoring internal controls over operations and management also planned to coordinate with other small Federal Government organizations to discuss their internal control programs, to include staffing those programs.

APPENDIX D – ACRONYMS

Acronym	Definition
AFR	Agency Financial Report
CPSC	Consumer Product Safety Commission
FMFIA	Federal Financial Manager's Integrity Act of 1982
FMPB	Office of Financial Management, Planning, and Evaluation
FY	Fiscal Year
GAGAS	Generally Accepted Government Auditing Standards
GAO	Government Accountability Office
Green Book	<i>Standards for Internal Control in the Federal Government</i>
IT	Information Technology
Kearney	Kearney & Company, P.C.
OIG	Office of Inspector General
OMB	Office of Management and Budget
SOA	Statement of Assurance

CONTACT US

If you want to confidentially report or discuss any instance of fraud, waste, abuse, misconduct, or mismanagement involving the CPSC's programs and operations, please contact the CPSC Office of Inspector General.



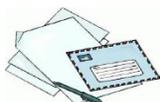
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301-504-7906
1-866-230-6229



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Click [here](#) for CPSC OIG Website.



Write:

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