



THE U.S. CONSUMER PRODUCT SAFETY COMMISSION

Inspection of the IPERA Review Program

FY 2013 Inspection Report

Contract #CPSC-D-13-0013, Task #1

April 11, 2014

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 1SJJ4.



U.S. CONSUMER PRODUCT SAFETY COMMISSION
WASHINGTON, DC 20207

Christopher W. Dentel
Inspector General

Tel: 301 504-7644
Fax: 301 504-7004
Email: cdentel@cpsc.gov

Date: April 14, 2014

TO : Robert S. Adler, Chairman (Acting)
Marietta Robinson, Commissioner
Ann Marie Buerkle, Commissioner

FROM : Christopher W. Dentel, Inspector General

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

Improper Federal payments to individuals, organizations, and contractors totaled an estimated \$106B during fiscal year (FY) 2013. The Improper Payments Elimination and Recovery Act of 2010 (IPERA), as implemented by OMB Memorandum M-11-16, 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.

In 2011, as a result of an Office of Inspector General's review, the CPSC acknowledged that it was not in compliance with IPERA. The agency did not conduct an initial estimate of improper payments or a formal program risk assessment. The PAR did not include any information regarding the agency's efforts to recapture improper payments. The CPSC indicated in their 2011 PAR that in 2012 they planned to refine the risk assessment criteria such that a, ". . . gross estimate is included and to be more substantially compliant with OMB's guidance and IPERA."

In 2012, the CPSC OIG retained the services of Withum, Smith & Brown (WS+B) an independent certified public accounting firm, to assess the CPSC's compliance with IPERA. Under a contract monitored by the Office of Inspector General, WS+B concluded that the CPSC was in compliance with IPERA. They found that the CPSC had taken several steps to identify risk and establish a systematic method to estimate improper payments. However, they also identified certain areas where they believed that the CPSC could improve its process of estimating improper payments and better comply with OMB guidance.

To assess agency compliance with IPERA for fiscal year 2013, 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

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report regarding the CPSC's compliance with IPERA. The contract required that the audit 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 that the CPSC had performed program-specific risk assessments for those activities identified as susceptible to significant improper payments. Kearney also found that the CPSC had developed standard operating procedures for performing risk assessments and expanded the assessments to include each of the risk factors suggested by Office of Management and Budget (OMB) guidance. However, Kearney also found that the CPSC had not adequately address all of the IPERA disclosure requirements in its FY 2013 AFR, as required by OMB Memorandum M-11-16, and that the methods the CPSC used to perform its quantitative evaluation and extrapolate the gross estimate of improper payments needed improvement.

Although Kearney did find that the CPSC had made several improvements to its IPERA review process in the past year, to include providing training, centralizing documentation, and documenting a plan for the annual IPERA review; Kearney also found areas still in need of improvement. During its review process, Kearney noted some instances in which the CPSC did not maintain clear and sufficient documentation to support some of the conclusions reached on its significant improper payments.

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 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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EXECUTIVE SUMMARY

Background

Improper Federal payments to individuals, organizations, and contractors totaled an estimated \$106B during fiscal year (FY) 2013.¹ Improper payments are payments that should not have been made or were made in an incorrect amount. Improper payments 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),² requires agencies' Offices of Inspector General (OIG) to annually assess compliance with improper payments requirements.³ 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 U.S. Consumer Product Safety Commission's (CPSC) compliance with IPERA during FY 2013.

Results of Evaluation and Findings

Kearney conducted this inspection to assess the CPSC's compliance with IPERA during FY 2013. Kearney found that the CPSC performed program-specific risk assessments for those activities identified as susceptible to significant improper payments. Kearney also found that the CPSC developed standard operating procedures (SOP) for performing risk assessments and expanded the assessments to include each of the risk factors suggested by Office of Management and Budget (OMB) guidance, as specified in the CPSC's Improper Payments Plan and Process (IPPP). Although the CPSC made these improvements to its risk assessment methodology during FY 2013, the methods it used to perform a quantitative evaluation and extrapolate the gross estimate of improper payments needs improvement.

Over the past year, the CPSC has made several improvements to its IPERA review process, to include providing training, centralizing documentation, and documenting a plan for the annual IPERA review. During its review process, Kearney noted some instances in which the CPSC did not maintain clear and sufficient documentation to support some of the conclusions reached on its significant improper payments. Specifically, Kearney noted the following:

¹ Sean Reilly, "Improper payment rate falls again," *Federal Times*, Dec. 31, 2013.

² Unless otherwise indicated, the term "IPIA" will imply "IPIA, as amended by IPERA" in this report.

³ Public Law (P.L.) No. 111-204 § 3(b).

1. Insufficient Documentation

- With regard to readiness for external review, Kearney noted a lack of stand-alone documentation needed to enable an external reviewer to re-perform the CPSC’s IPERA review of transactions that accounts for the seven risk criteria identified in the CPSC’s IPPP
- Lack of documentation of the specific methodology describing how the CPSC applies its IPPP risk criteria during transaction review and concludes on whether a transaction is proper or improper
- Lack of documentation of a clear definition specifying which documents qualify as “sufficient documentation” per transaction type
- Lack of documentation of evidence of the training provided to the CPSC Finance Staff and Interns in preparation for the IPERA review
- Lack of documentation of the supervisory review performed over workpapers created by the CPSC Interns or any others who lack the experience, competence, or training to conduct a Federal IPERA review per OMB Memorandum M-11-16
- Lack of documentation of assignment of roles and responsibilities to specific individuals for performance and supervisory review of the IPERA review
- Documentation inconsistencies between the definition of payment in the IPPP and actual transaction composition of the population
 - Specifically in its review, Kearney noted that, per the CPSC’s IPPP, only transactions meeting OMB’s definition of a “payment,” as defined in Memorandum M-11-16, are to be included in the population; however, Kearney found the following items present in the population: Employee Travel Expenses, Employee Expense Reimbursement, and Reclassifications
- Lack of documentation of the CPSC’s annual review of the Enterprise Service Center’s (ESC) performance of “...controls to provide reasonable assurance that suppliers are registered with the SAM (System for Award Management),” as documented in ESC’s Statement on Standards for Attestation Engagements (SSAE) No. 16 review
 - Kearney noted that this complementary control is:
 - Performed and reported by ESC in its SSAE No. 16 review
 - Relied on by the CPSC to ensure that the CPSC vendors are registered with the System for Award Management (SAM) and updated appropriately, which includes access to the Excluded Party List Service (EPLS) and other systems that review vendors for ineligibility criteria
 - Not tested by ESC’s auditor during the SSAE No. 16 review
- Lack of consistently signed documentation for purchase card transactions
 - Kearney notes that per the CPSC *Purchase Card Handbook*, Section 8.2, Subsection 8.2.1, Purchase Card Approving Officials are required to sign and date the Purchase Card Statement of Account as evidence that they have reviewed the transactions on their purchase card against sufficient documentation. During inspection, Kearney discovered five transactions with Purchase Card Statements of Account that were missing signatures. The total amount of these transactions was \$17,401.88.

2. OMB Required Disclosures

Although the CPSC made certain disclosures in its Agency Financial Report (AFR) of the results of the IPERA review process, Kearney noted that the CPSC did not adequately address all of the IPERA disclosure requirements in its FY 2013 AFR, as required by OMB Memorandum M-11-16.

- In addition to the disclosures that the CPSC made in its FY 2013 AFR, the CPSC should also disclose the following:
 - The basis for the grouping of the programs that most clearly identifies and reports improper payments
 - The detailed portion of the reporting to be included as an appendix to the AFR
 - A list of programs and activities in which it has been determined that 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

CPSC's management concurred with our findings and recommendations, and is developing a Corrective Action Plan (CAP) to remediate the findings and recommendations.

INTRODUCTION

Background

In July 2010, IPERA, which amended IPIA, was enacted in an effort 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, the Improper Payments Elimination and Recovery Improvement Act of 2012⁴ (IPERIA) was enacted. IPERIA 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 2012 Performance Audit Report, Withum Smith & Brown concluded that the CPSC was in compliance with IEPRA. However, they did identify some areas in which the CPSC could improve its process of 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.

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 IPERA. The inspection objective is to determine whether the CPSC is in compliance with IPERA.

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

⁴ P.L. No. 112-248.

1. A rigorous evaluation of the CPSC's compliance with IPERA and OMB Memorandum M-11-16
2. A consistent and understandable mechanism for reporting the results in the format established by the Council for Inspectors General on Integrity and Efficiency's (CIGIE) *Quality Standards for Inspection and Evaluation* (QSIE)
3. A road map that the CPSC can follow to improve its processes.

Scope

This inspection covers the IPERA review performed by the CPSC's Finance Staff. The scope of this inspection included transactions identified by the CPSC as meeting the OMB Memorandum M-11-16 definition of a payment made during FY 2013. Kearney conducted the work from February 2014 through April 2014 at the CPSC's Headquarters in Bethesda, MD. In its self-review, the CPSC identified approximately \$32.5M in payments that met the definition of a payment, as defined by OMB Memorandum M-11-16.

Methodology

Kearney conducted this review in accordance with CIGIE's QSIE. Those standards require that Kearney obtain sufficient data to provide a reasonable basis for reaching conclusions, and also require that Kearney ensure 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 designed the inspection to obtain insight into the CPSC's current processes, procedures, and organizational structure with regard to compliance with IPERA requirements.

RESULTS AND FINDINGS

Insufficient Documentation

Kearney reviewed documentation related to the CPSC's efforts to assess improper payments. The CPSC has an IPPP, which it describes as "...the procedures the CPSC uses to comply with the requirements of the Improper Payments Elimination and Recovery Act of 2010 (IPERA)."

Over the past year, the CPSC has made several improvements to its IPERA review process, to include providing training, centralizing documentation, and documenting a plan for the annual IPERA review. During its review process, Kearney noted some instances in which the CPSC did not maintain clear and sufficient documentation to support some of the conclusions reached on its significant improper payments. Specifically, Kearney noted the following:

- With regard to readiness for external review, Kearney noted a lack of stand-alone documentation needed to enable an external reviewer to re-perform the CPSC's IPERA review of transactions that accounts for the seven risk criteria identified in the CPSC's IPPP

- Lack of documentation of the specific methodology describing how the CPSC applies its IPPP risk criteria during transaction review and concludes on whether a transaction is proper or improper
- Lack of documentation of a clear definition specifying which documents qualify as “sufficient documentation” per transaction type
- Lack of documentation of evidence of the training provided to the CPSC Finance Staff and Interns in preparation for the IPERA review
- Lack of documentation of the supervisory review performed over workpapers created by the CPSC Interns or any others who lack the experience, competence, or training to conduct a Federal IPERA review per OMB Memorandum M-11-16
- Lack of documentation of assignment of roles and responsibilities to specific individuals for performance and supervisory review of the IPERA review
- Documentation inconsistencies between the definition of payment in the IPPP and actual transaction composition of the population
 - Specifically in its review, Kearney noted that, per the CPSC’s IPPP, only transactions meeting OMB’s definition of a “payment,” as defined in Memorandum M-11-16, are to be included in the population; however, Kearney found the following items present in the population: Employee Travel Expenses, Employee Expense Reimbursement, and Reclassifications
- Lack of documentation of the CPSC’s annual review of ESC’s performance of “...controls to provide reasonable assurance that suppliers are registered with the SAM (System for Award Management),” as documented in ESC’s SSAE No. 16 review
 - Kearney noted that this complementary control is:
 - Performed and reported by ESC in its SSAE No. 16 review
 - Relied on by the CPSC to ensure that the CPSC vendors are registered with the SAM and updated appropriately, which includes access to EPLS and other systems that review vendors for ineligibility criteria
 - Not tested by ESC’s auditor during the SSAE No. 16 review
- Lack of consistently signed documentation for purchase card transactions
 - Kearney notes that per the CPSC *Purchase Card Handbook*, Section 8.2, Subsection 8.2.1, Purchase Card Approving Officials are required to sign and date the Purchase Card Statement of Account as evidence that they have reviewed the transactions on their purchase card against sufficient documentation. During inspection, Kearney discovered five transactions with Purchase Card Statements of Account that were missing signatures. The total amount of these transactions was \$17,401.88.

the CPSC’s policies and procedures do not adequately document the IPERA review process that the CPSC executes on an annual basis. Inadequate policies and procedures produce challenges that reduce the efficiency and effectiveness of an external inspection of the CPSC’s IPERA review.

Kearney recommends that the CPSC enhance its policies and procedures to include the following:

1. Stand-alone documentation to enable an external reviewer to re-perform the CPSC's IPERA review of transactions that accounts for the seven risk criteria identified in the CPSC's IPPP
2. Documentation of the specific methodology describing how the CPSC applies the IPPP risk criteria during transaction review and concludes on whether a transaction is proper or improper
3. Documentation of a clear definition of which documents qualify as "sufficient documentation" per transaction type
4. Documentation of evidence of the training provided to the CPSC Finance Staff and Interns in preparation for the IPERA review
5. Documentation of the supervisory review performed over workpapers created by the CPSC Interns or any others who lack the experience, competence, or training to conduct a Federal IPERA review per OMB Memorandum M-11-16
6. Consistent documentation between the definition of payment in the IPPP and actual transaction composition of the population
7. Documentation of the CPSC's annual review of ESC's performance of "...controls to provide reasonable assurance that suppliers are registered with the SAM (System for Award Management)," as documented in ESC's SSAE No. 16 review
8. With regard to purchase card transactions, Kearney recommends that the CPSC mark any transaction that does not have a signed and dated Purchase Card Statement of Account and appropriate supporting evidence at the time of review as improper. If, at a later date, the CPSC can acquire a signed and dated Purchase Card Statement of Account with appropriate supporting evidence, at that time, the classification can be reconsidered.

OMB Required Disclosures

OMB Memorandum M-11-16, *Issuance of Revised Parts I and II to Appendix C of OMB Circular A-123*, requires that "...unless otherwise specified in OMB Circular A-11, each Federal agency, after consultation with OMB, is authorized to determine the grouping of programs which most clearly identifies and reports improper payments for their agency. For transparency, the basis for these groupings must be reported in the agency's annual PAR or AFR. Agencies shall, following the format included in OMB Circular A-136, include a summary of their progress of completing these reporting requirements in the Management's Discussion and Analysis (MD&A) section of their PAR or AFRs. However, the detailed portion of the reporting required by this Guidance is to be included as an appendix to the PAR or AFR."

It further states, "If an agency determines that it would be unable to conduct a cost-effective payment recapture audit program for certain programs and activities that expend more than \$1 million, then it must notify OMB and the agency's Inspector General of this decision and include any analysis used by the agency to reach this decision. OMB may review these materials and determine that the agency should conduct a payment recapture audit program to review these programs and activities. In addition, the agency shall report in its annual PAR or APR: 1) a list of programs and activities where it has determined conducting a payment recapture audit program would not be cost-effective; and 2) a description of the justifications and analysis that it used to determine that conducting a payment recapture audit program for these programs and activities was not cost-effective."

Although the CPSC made certain disclosures in its AFR of the results of the IPERA review process, Kearney noted that the CPSC did not adequately address all of the IPERA disclosure requirements in its FY 2013 AFR, as required by OMB Memorandum M-11-16.

- In addition to the disclosures that the CPSC made in its FY 2013 AFR, the CPSC should also disclose the following:
 - The basis for grouping the programs that most clearly identifies and reports improper payments
 - The detailed portion of the reporting to be included as an appendix to the AFR
 - A list of programs and activities in which it has been determined that conducting a payment recapture audit program would not be cost effective
 - A description of the justifications and analysis 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 required by OMB, the CPSC did not provide all users and stakeholders with all the relevant and reliable information about its efforts to prevent, identify, and recover improper payments. AFRs play a key role 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.

Specifically, Kearney recommends that the CPSC disclose the following:

- In an Appendix to its AFR, the basis for grouping the programs that most clearly identifies and reports improper payments
- In an Appendix to its AFR, the detailed portion of the reporting to be included
- In an Appendix to its AFR, a list of programs and activities in which it has been determined that conducting a payment recapture audit program would not be cost effective, and a description of the justifications and analysis that it 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.

CONCLUSION

Based on the results and findings noted above, Kearney concludes that the CPSC is in compliance with IPERA. The CPSC has made significant strides in the development of its IPERA review process. However, there are improvements the CPSC's management has yet to make. Kearney discussed its recommendations with the CPSC's management, and the CPSC's management has indicated that the CPSC plans to take the proper actions to remediate the issues noted, and will implement policies and procedures to strengthen the IPERA review program.

APPENDIX A – ACRONYMS

Acronym	Definition
AFR	Agency Financial Report
CAP	Corrective Action Plan
CIGIE	Council of the Inspectors General on Integrity and Efficiency
CPSC	U.S. Consumer Product Safety Commission
EPLS	Excluded Party List Service
ESC	Enterprise Services Center
FY	Fiscal Year
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
IPPP	Improper Payments Plan and Process
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
SAM	System for Award Management
SOP	Standard Operating Procedures
SSAE	Statement of Standards for Attestation Engagements

APPENDIX B – MANAGEMENT’S RESPONSE



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

April 9, 2014

Kearney & Company
1701 Duke St., Suite 500
Alexandria, VA 22314

Dear Kearney & Company,

CPSC Management concurs with your report’s overall conclusion that “CPSC is in compliance with IPERA and that CPSC performed program-specific risk assessments for those activities identified as susceptible to significant improper payments.” Management further concurs that the documentation of the testing and OMB required disclosure can be improved upon in subsequent years by taking your audit recommendations into consideration.

Thank you for your helpful suggestions on this collaborative audit engagement. If you have questions or comments, please contact CPSC’s Internal Controls lead, Barbara Denny, at (301) 504-7246, or bdenny@cpsc.gov.

Sincerely,

PRISCILA SUSI

Digitally signed by PRISCILA SUSI
DN: cn=PRISCILA SUSI, o=U.S. Consumer Product Safety Commission, ou=CPSC, email=priscila.susi@cpsc.gov, c=US

Priscila Susi
Director, Financial Services