United States

CONSUMER PRODUCT SAFETY COMMISSION

Bethesda, MD 20814

OFFICE OF THE INSPECTOR GENERAL

Independent Audit Report

AUDIT OF THE CONSUMER PRODUCT SAFETY COMMISSION'S FISCAL YEAR 2014 FINANCIAL STATEMENTS

Date Issued: November 14, 2014

U.S. CONSUMER PRODUCT SAFETY COMMISSION
BETHESDA, MD 20814

Christopher W. Dentel
Inspector General

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Date: November 14, 2014

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

FROM : Christopher W. Dentel, Inspector General

SUBJECT : Audit of the Consumer Product Safety Commission's Fiscal Year 2014 Financial Statements

Pursuant to the Chief Financial Officers Act of 1990, commonly referred to as the "CFO Act," as amended, this letter transmits the Independent Auditor's Report issued by CliftonLarsonAllen (CLA), for the fiscal year ending September 30, 2014. The audit was performed under a contract with, and monitored by, the Office of Inspector General (OIG), in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and applicable provisions of Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended.

Opinion on the Financial Statements

CLA audited the financial statements of the U.S. Consumer Product Safety Commission (Commission), which comprise the balance sheet as of September 30, 2014 and 2013, and the related statements of net cost, changes in net position, budgetary resources, and custodial activity for the year then ended, and the related notes to the financial statements (financial statements). The objective of the audit was to express an opinion on the fair presentation of those financial statements. In connection with the audit, CLA also considered the CPSC's internal control over financial reporting and tested the CPSC's compliance with certain provisions of applicable laws and regulations that could have a direct and material effect on its financial statements.

In CLA's opinion, the financial statements present fairly, in all material respects, the financial position, net cost, changes in net position, budgetary resources, and custodial activity of the CPSC as of, and for the years ending September 30, 2014 and 2013, in conformity with accounting principles generally accepted in the United States of America.

Report on Internal Control

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

Because of inherent limitations in internal controls, including the possibility of management override of controls; misstatements, losses, or noncompliance may nevertheless occur and not be detected. According to the American Institute of Certified Public Accountants:

- A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis.

- A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is a more than remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

- A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

CLA's consideration of internal control was for the limited purpose described in the first paragraph in this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. CLA did not identify deficiencies in internal control that CLA would consider to be a material weakness, as defined above. However, material weaknesses may exist that have not been identified.

Report on Compliance with Laws and Regulations

CPSC management is responsible for complying with laws and regulations applicable to the agency. To obtain reasonable assurance about whether CPSC's financial statements are free of material misstatements, CLA performed tests of compliance with certain provisions of laws and regulations, noncompliance which could have a direct and material effect on the determination of financial statement amounts, and certain other laws and regulations specified in OMB Bulletin No. 07-04, as amended. CLA did not test compliance with all laws and regulations applicable to the CPSC.

CLA's tests of compliance with laws and regulations described in the audit report disclosed instances of noncompliance with laws and regulations that are required to be reported under U.S. generally accepted government auditing standards or OMB guidance.

In fiscal year 2013, this office disclosed in an investigative report that between on or about January 1, 1996, and September 25, 2013, employees working under telework status received reimbursement for telecommunication services without the proper certification of adequate safeguards against private misuse and without proper safeguards against private misuse. The expenditures did not meet the requirements of the applicable appropriations statute, § 620 of the Treasury, Postal Service, and General Government Appropriations Act, 1996 (P.L. 104-52) -- which carved out a specific exception and conditions for an otherwise prohibited use of appropriated funds -- and thereby exceeded CPSC's appropriation. CPSC also violated a separate statute, 31 U.S.C. § 1348, which deals with the use of appropriated funds to pay for telephones in private residences. Due to its failure to comply with § 620 of P.L 104-52, the CPSC lacked legal authority to use the funds in question in the manner in which they were expended. The agency no longer had adequate records to allow for a determination of the full extent and size of the ADA violation. For a variety of reasons, including maintenance of only seven years of historical financial records and a change in financial management systems, relevant records were not available regarding transactions that occurred before fiscal year 2007. However, based on the records that were available, since October 1, 2006 over $1,208,424 dollars in appropriated funds were expended without legal authority. The Commission submitted the required Anti-Deficiency Act (ADA) letter to the Speaker of the House of Representatives, the Comptroller General of the United States, the President of United States Senate and the President of the United States on October 24, 2014.

In fiscal year 2014, this office disclosed in an investigative report that an employee of the Commission worked, by performing an interview, during the Government shutdown after being placed on furlough status. We found that the CPSC had adequate policies and procedures in place to prevent an inadvertent violation of the Antideficiency Act related to the Government Shutdown from occurring. However, internal controls cannot prevent willful misconduct and the violation occurred due to the willful misconduct of the employee. The Commission submitted the required Antideficiency Act (ADA) letter to the Speaker of the House of Representatives, the Comptroller General of the United States, the President of United States Senate and the President of the United States on June 5, 2014.

Audit Follow-up

The independent auditor's report contains no new recommendations as no significant deficiencies were found by the auditors. Management was provided a draft copy of the audit report for comment and generally concurred with the findings. In accordance with OMB

Circular No. A-50, Audit Follow-up, revised, the CPSC was to prepare a corrective action plan that set forth the specific action planned to implement the agreed upon recommendations from the prior fiscal year's audit report and the schedule for implementation. The CPSC has designated the *Chief Financial Officer* to be the audit follow-up official for the financial statement audit. CLA reviewed the status of the recommendations related to findings from the prior year audit and determined that as of fiscal year 2014, the material weakness related to the Capitalization of Leasehold Improvements had been resolved, but that the compliance finding related to violations of the Antideficiency Act had been repeated and thus could not be considered resolved in fiscal year 2014.

OIG Evaluation of CliftonLarsonAllen's Audit Performance

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

We appreciate the courtesies and cooperation extended to CLA and the OIG staff during the audit. If you should have any questions concerning this report, please contact my office on (301) 504-7501.

Christopher W. Dentel
Inspector General

Attached: Audit Report

INDEPENDENT AUDITORS' REPORT

Inspector General
Consumer Product Safety Commission

Chairman
Consumer Product Safety Commission

Report on the Financial Statements

We have audited the accompanying financial statements of the U.S. Consumer Product Safety Commission (Commission), which comprise the balance sheets as of September 30, 2014 and 2013, and the related statements of net cost, changes in net position, budgetary resources, and custodial activity for the years then ended, and the related notes to the financial statements (financial statements).

Management's Responsibility for the Financial Statements

Commission management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America (U.S.) and the design, implementation and maintenance of internal control over financial reporting relevant to the preparation, and fair presentation of these financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the U.S.; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 14-02, *Audit Requirements for Federal Financial Statements* (OMB Bulletin 14-02). Those standards and OMB Bulletin 14-02 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

We are also responsible for applying certain limited procedures with respect to the Required Supplementary Information and all other information included with the financial statements.

Opinion on the Financial Statements

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the U.S. Consumer Product Safety Commission as of September 30, 2014 and 2013, and its net costs, changes in net position, budgetary resources, and custodial activity for the years then ended, in accordance with accounting principles generally accepted in the U.S.

Other Matters

Required Supplementary Information

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

Other Information

The Message from the Chairman on page i, and other accompanying information on pages 49 to 61, contain a wide range of information, some of which is not directly related to the financial statements. This information is presented for purposes of additional analysis and is not a required part of the financial statements or RSI. The Message from the Chairman and other accompanying information has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Commission's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control or on management's assertion on internal control included in the MD&A. Accordingly, we do not express an opinion on the effectiveness of the Commission's internal control or on management's assertion on internal control included in the MD&A.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Commission's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contract agreements consistent with our professional responsibilities discussed below.

The results of our tests disclosed instances of noncompliance described below and in Exhibit A that are required to be reported in accordance with *Government Auditing Standards.*

<u>Non-Compliance with Anti-Deficiency Act</u>

> In FY 2013 the Commission's Office of Inspector General disclosed in an investigative report that between on or about January 1, 1996, and September 25, 2013, employees working under telework status received reimbursement for telecommunication services without the proper certification of adequate safeguards against private misuse and without proper safeguards against private misuse. The expenditures did not meet the requirements of the applicable appropriations statute, § 620 of the Treasury, Postal Service, and General Government Appropriations Act, 1996 (P.L. 104-52) -- which carved out a specific exception and conditions for an otherwise prohibited use of appropriated funds -- and thereby exceeded CPSC's appropriation. CPSC also violated a separate statute, 31 U.S.C. § 1348, which deals with the use of appropriated funds to pay for telephones in private residences. Due to its failure to comply with § 620 of P.L 104-52, the CPSC lacked legal authority to use the funds in question in the manner in which they were expended. The agency no longer had adequate records to allow for a determination of the full extent and size of the ADA violation. For a variety of reasons, including maintenance of only seven years of historical financial records and a change in financial management

systems, relevant records were not available regarding transactions that occurred before fiscal year 2007. However, based on the records that were available, since October 1, 2006, over $1,208,424 dollars in appropriated funds were expended without legal authority. The Commission submitted the required Anti-Deficiency Act (ADA) letter to the Speaker of the House of Representatives, the Comptroller General of the United States, the President of United States Senate and the President of the United States on October 24, 2014.

In FY 2014, the Commission's Office of Inspector General disclosed in an investigative report that an employee of the Commission worked, by performing an interview, during the Government shutdown after being placed on furlough status. The Commission submitted the required Anti-Deficiency Act (ADA) letter to the Speaker of the House of Representatives, the Comptroller General of the United States, the President of United States Senate and the President of the United States on June 5, 2014.

Management's Responsibilities for Internal Control and Compliance

Management is responsible for (1) evaluating the effectiveness of internal control over financial reporting based on criteria established under the Federal Managers' Financial Integrity Act (FMFIA), (2) providing a statement of assurance on the overall effectiveness on internal control over financial reporting, and (3) complying with other applicable laws, regulations, and contract agreements.

Auditors' Responsibilities

We are responsible for: (1) obtaining a sufficient understanding of internal control over financial reporting to plan the audit, and (2) testing compliance with certain provisions of laws, regulations, and contract agreements that have a direct and material effect on the determination of financial statement amounts and applicable laws and regulations for which OMB Bulletin 14-02 requires testing.

We did not evaluate all internal controls relevant to operating objectives as broadly established by the FMFIA, such as those controls relevant to preparing statistical reports and ensuring efficient operations. We limited our internal control testing to testing controls over financial reporting. Because of inherent limitations in internal control, misstatements due to error or fraud, losses, or noncompliance may nevertheless occur and not be detected. We also caution that projecting our audit results to future periods is subject to risk that controls may become inadequate because of changes in conditions or that the degree of compliance with controls may deteriorate. In addition, we caution that our internal control testing may not be sufficient for other purposes.

We did not test compliance with all laws, regulations and contract agreements applicable to the Commission. We limited our tests of compliance to certain provisions of laws, regulations and contract agreements that have a direct and material effect on the determination of financial statement amounts and applicable laws and regulations for which OMB Bulletin 14-02 requires testing. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. We caution that noncompliance may occur and not be detected by these tests and that such testing may not be sufficient for other purposes.

INDEPENDENT AUDITORS' REPORT (Continued)

Management's Response to Findings

Management's response to the findings identified in our report is presented in Exhibit C. We did not audit the Commission's response and, accordingly, we express no opinion on it.

Status of Prior Year's Control Deficiencies and Noncompliance Issues

We have reviewed the status of the Commission's corrective actions with respect to the findings included in the prior year's Independent Auditors' Report, dated December 13, 2013. The status of prior year findings is presented in Exhibit B.

Purpose of the Report on Internal Control over Financial Reporting and the Report on Compliance and Other Matters

The purpose of the Report on Internal Control over Financial Reporting and the Report on Compliance and Other Matters sections of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the Commission's internal control or on compliance. These reports are an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Commission's internal control and compliance. Accordingly, these reports are not suitable for any other purpose.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Calverton, Maryland
November 14, 2014

EXHIBIT A
Compliance Findings

Non-compliance with Anti-Deficiency Act

The Anti-Deficiency Act (ADA) prohibits making or authorizing an expenditure from, or creating or authorizing an obligation under any appropriation or fund in excess of the amount available in the appropriation or fund unless authorized by law.

In FY 2014, the Commission's Office of Inspector General disclosed in an investigative report that an employee of the Commission worked by performing an interview during the Government shutdown after being placed on furlough status in violation of section 1342 of Title 31 of the United States code. The employee worked on October 2, 2013, by conducting an interview in support of a product safety investigation after being provided a furlough notice instructing the employee not to work on official business even as an unpaid volunteer which was signed by the employee. The investigative report further found that the Commission had adequate policies in place to prevent a violation of the Anti-Deficiency Act related the Government shutdown from occurring, however internal controls cannot prevent willful misconduct. The violation of the Anti-Deficiency Act occurred due to the willful misconduct of the employee. The Commission submitted the required Anti-Deficiency Act (ADA) letter to the Speaker of the House of Representatives, the Comptroller General of the United States, the President of United States Senate and the President of the United States on June 5, 2014.

In FY 2013 the Commission's Office of Inspector General disclosed in an investigative report that between on or about January 1, 1996, and September 25, 2013, employees working under telework status received reimbursement for telecommunication services without the proper certification of adequate safeguards against private misuse and without proper safeguards against private misuse. The expenditures were made under the CPSC's telework program and were designed to allow "Full-Time Telework" employees to work from home offices spread across the country and thus to allow the agency to have a geographic presence without the costs of providing regional or field offices. The expenditures did not meet the requirements of the applicable appropriations statute, § 620 of the Treasury, Postal Service, and General Government Appropriations Act, 1996 (P.L. 104-52) -- which carved out a specific exception and conditions for an otherwise prohibited use of appropriated funds -- and thereby exceeded CPSC's appropriation. CPSC also violated a separate statute, 31 U.S.C. § 1348, which deals with the use of appropriated funds to pay for telephones in private residences. Due to its failure to comply with § 620 of P.L 104-52, the CPSC lacked legal authority to use the funds in question in the manner in which they were expended. The agency no longer had adequate records to allow for a determination of the full extent and size of the ADA violation. For a variety of reasons, including maintenance of only seven years of historical financial records and a change in financial management systems, relevant records were not available regarding transactions that occurred before fiscal year 2007. However, based on the records that were available, since October 1, 2006, over $1,208,424 dollars in appropriated funds were expended without legal authority. The Commission submitted the required Anti-Deficiency Act (ADA) letter to the Speaker of the House of Representatives, the Comptroller General of the United States, the President of United States Senate and the President of the United States on October 24, 2014.

EXHIBIT B
Status of Prior Year Findings

Our assessment of the current status of the recommendations related to findings identified in the prior year audit is presented below:

FY 2013 Finding	*Type*	*FY 2014 Status*
Capitalization of Leasehold Improvements	Material Weakness	Resolved in 2014
Anti-Deficiency Act Violation	Compliance Finding	Repeat as a Compliance Finding and included in Exhibit B

EXHIBIT C
Management's Response to Findings

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

Date: November 14, 2014

To: Christopher Dentel
Inspector General

From: Jay Hoffman
Chief Financial Offi

Jay Hoffman

I am pleased to accept your audit report on the financial statements of the Consumer Product Safety Commission for fiscal year 2014. The agency's efforts and achievements toward improved financial management are clearly reflected in the audit report. The agency is satisfied to have received an unmodified audit opinion on the fiscal year 2014 financial statements. The agency is also pleased to accept your assessment that the prior year internal control material weakness affecting capitalization of leasehold improvements has been resolved.

I acknowledge your report's repeat disclosure on non-compliance with laws and regulations. Management has already taken corrective action to remedy the instances of non-compliance that were noted by improving the associated internal controls and issued the statutorily required reports to external stakeholders.

I appreciate the efforts and leadership of the Office of the Inspector General (OIG) and of the auditors under contract to the OIG to audit CPSC's financial statements. Please convey my appreciation to your team for the professionalism and cooperation exhibited during this audit.