



## U.S. Consumer Product Safety Commission OFFICE OF INSPECTOR GENERAL



# Evaluation of the CPSC's Compliance with Tax Withholding Requirements

September 11, 2023

23-A-06



## **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.



September 11, 2023

TO: Alexander D. Hoehn-Saric, Chairman  
Peter A. Feldman, Commissioner  
Richard L. Trumka Jr., Commissioner  
Mary T. Boyle, Commissioner

FROM: Christopher W. Dentel, Inspector General

SUBJECT: Report on the Evaluation of the CPSC's Compliance with  
Tax Withholding Requirements

The objective of this evaluation was to determine whether the United States Consumer Product Safety Commission (CPSC) was compliant with Internal Revenue Service (IRS) withholding and payment requirements, related state income tax withholding and payment requirements, and appropriately handled lock-in letters for the period January 1, 2017, to December 31, 2021. The Office of Inspector General retained the services of GBB & Co, LLP (GBB), an independent public accounting firm, to evaluate the CPSC's tax withholding compliance. This evaluation was performed in accordance with the Council of Inspectors General on Integrity and Efficiency's *Quality Standards for Inspection and Evaluation*.

Overall, GBB found that for calendar year 2021, the CPSC complied with IRS requirements. The evaluation revealed 7.3 percent of CPSC employees had unexpectedly low federal tax withholding and 7.5 percent of CPSC employees had unexpectedly low state tax withholding. However, despite the lower than expected tax withholdings, overall CPSC had a tax delinquency rate of 4.28 percent, below the government-wide average of 4.93 percent for calendar year 2021.

In connection with our contract, we reviewed GBB'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. GBB is responsible for the attached report. However, our review disclosed no instances where GBB did not comply, in all material respects, with Council of Inspectors General on Integrity and Efficiency's *Quality Standards for Inspection and Evaluation*.

Should you have any questions, please contact me.

GBB & Co., LLP



Evaluation of the CPSC's Compliance with  
Tax Withholding Requirements

Issued: September 11, 2023

By GBB & Co., LLP

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## ACRONYMS & ABBREVIATIONS

CIGIE	Council of Inspectors General on Integrity and Efficiency
CPSC	Consumer Product Safety Commission
CY	Calendar Year
EODS	Entrance on Duty System
GBB, we, our	GBB & Company, LLP
EXRM	Office of Human Resources Management
IRS	Internal Revenue Service

## BACKGROUND

The U. S. Consumer Product Safety Commission (CPSC) is an independent federal regulatory agency with a public health and safety mission to protect the public from unreasonable risks of injury and death from consumer products. The CPSC performs its mission by preventing hazardous products from reaching consumers, rapidly addressing hazardous products found in the marketplace, communicating actionable information about product hazards to consumers, and providing effective support to mission staff.

Like all taxpayers, federal employees and retirees have a legal obligation to file tax returns and pay their taxes. However, federal employees are held to a higher standard for several reasons, including that they draw their compensation from federal taxes. The number of delinquent federal civilian employees has increased by 32 percent from Fiscal Years 2015 to 2021.

Failure of a federal employee to satisfy their just financial obligations violates 5 Code of Federal Regulation 2635.101(b)(12), *Standards of Ethical Conduct for Employees of the Executive Branch*, which mandates federal employees shall satisfy, in good faith, their financial obligations such as federal, state, or local taxes which are imposed by law.

The CPSC's Office of Human Resource Management (EXRM) is responsible for the CPSC's payroll operations, which includes the responsibility of processing the receipt of employee wage garnishments. Currently, EXRM has a contractual agreement with the Department of the Interior to perform payroll operations including wage garnishment activities.

The CPSC uses the Workforce Tracking and Transformation System and Entrance on Duty System (EODS) to assist with the onboarding process and transmittal of payroll documents. Workforce Tracking and Transformation System and EODS are transactional systems integrated real-time with the Federal Personnel and Payroll System. The completed payroll forms in EODS are sent directly to the Federal Personnel and Payroll System through a web services interface.

EXRM assigns the appropriate payroll documents to new hires in EODS. The instructions for completing the W-4 are contained in the form. The W-4 provides a link to the Internal Revenue Service (IRS) estimator if assistance is needed to determine the most accurate withholding. Since there are different state withholding forms for each state, a link to each state's withholding form is provided in EODS. The employee must locate the appropriate state withholding form based on their official duty station identified in the Firm Offer Letter. The completed forms are provided to EXRM during orientation. Employees are advised to discuss any tax related questions with a professional tax advisor.

In addition to providing the paperwork necessary to establish a new employee's withholding, EXRM staff must process lock-in letters as they are received from the IRS. Lock-in letters are issued by the IRS when it determines that an employee does not have adequate federal income tax withholding. The IRS instructs the employer to withhold federal income tax at a higher, prescribed rate for a specified period. At that point, the employer must disregard any form W-4 the employee has submitted.

## OBJECTIVE

As requested by the CPSC's Office of Inspector General, GBB & Co, LLP (defined as "GBB & Co, LLP," "we," and "our" in this report) evaluated the CPSC's compliance with IRS withholding and payment requirements and related state income tax withholding and payment requirements and handling of lock-in letters.

## WITHHOLDING EVALUATION

This portion of the evaluation covered the CPSC employees' income tax withholding activity during calendar year (CY) 2021. Tax withholding was evaluated against the IRS Code Section 26 United States Code Chapter 24, Subtitle C, Sections 3401-3406, and related sections of the Internal Revenue Service Manual.

We performed the analysis by reviewing the Form W-2 and Form W-4 records of all 546 CPSC employees who received wages in 2021. To maintain privacy, GBB & Co, LLP assigned numbers to the employees receiving wages during CY 2021 from 1 – 546. We developed an expected range of tax withholdings based on the following assumptions:

- CY 2021 tax rates
- Tax filing status (Married Filing Jointly, Married Filing Separate, Head of Household or Single)
- CY 2021 standard or itemized deductions based on the employee's W-4 records
- Additional withholding and Child Tax Credit W-4 elections
- Estimated taxable income
- Where the employee's W-4 noted multiple jobs, \$25,000 additional income was assumed

As detailed in Appendices A and B, our expected value for the employee's 2021 federal and state income tax liability was a calculation based on annual compensation, marginal tax brackets, filing status, and additional elections per completed Forms W-4. Reasonableness for this report was defined as having at least 90 percent of the expected tax due withheld. Outliers, those with a variance between expected withholdings and actual withholdings of more than 10 percent, are listed in Appendices A and B.

When applying our methodology for federal income tax withholding to the 546 employees we identified 40 individuals whose actual federal withholdings were more than 10 percent below our expectation. See Appendix A for the results.

We then applied our methodology for state income tax withholding (if applicable) to the 546 individuals employed by CPSC during, 2021. We identified 41 individuals whose actual state withholdings were more than 10 percent below our expectation. See Appendix B for these results.

We then compared the two lists and identified seven individuals who had both federal and state withholdings that were more than 10 percent below our expectation. These individuals are highlighted in Appendices A and B.

Overall, our evaluation revealed 7.3 percent of CPSC employees had unexpectedly low federal tax withholding and 7.5 percent of CPSC employees had unexpectedly low state tax withholding. However, despite the lower than expected tax withholdings, overall CPSC had a tax delinquency rate of 4.28 percent, below the government-wide average of 4.93 percent for CY 2021.

## LOCK-IN LETTERS

Lock-in letters are issued by the IRS when it determines that an employee does not have adequate federal income tax withholding. In the letter, the IRS instructs the employer to withhold federal income tax at a higher, prescribed rate for a specified period. At that point the employer must disregard any Form W-4 the employee has submitted.

When EXRM receives a lock-in letter for a CPSC employee, that employee's payroll file is immediately changed to the withholding rate indicated by the IRS. The lock-in letter specifies an effective date for the change. Typically, the effective date is described as the first payroll after an approximately 60-day delay to allow employees time to file an appeal if they wish to dispute the terms of the letter, or if they believe it is issued in error. Realistically, this means that the actual start date will be within a 14-day window after the IRS effective date. Employee Express is the web tool that CPSC employees use to make changes to their payroll. Employee Express removes the functionality necessary to change federal income tax withholding during the period a lock-in letter is in effect. Typically, lock-in letters are effective for one year.

The CPSC received 15 lock-in letters during the 5-year period January 1, 2017, through December 31, 2021. The 15 letters affected 12 different employees. Three employees received more than one lock-in letter during the period. Three of the twelve employees who received lock-in letters during the 5-year period under review were no longer employed with CPSC as of January 1, 2021. One of the nine still active employees (number 431) had unexpectedly low federal tax withholding. Three of the nine still active employees (numbers 79, 387 and 431) had unexpectedly low state tax withholding. Appendix C details the treatment of the 15 lock-in letters examined during our period of evaluation.

## CONCLUSIONS & RECOMMENDATIONS

Overall, EXRM complied with applicable laws and their internal policies and procedures regarding the withholding of federal and state income tax and the implementation of lock-in letters. Failings appear to be an individual employee issue. However, we encourage EXRM to continue its efforts to educate staff about their obligations to pay taxes in their monthly newsletters.

As a result of our evaluation, we make no recommendations.

## SCOPE & METHODOLOGY

### SCOPE

This evaluation covered CPSC employees' income tax withholding activity during CY 2021 and all lock-in letters issued by the IRS to CPSC employees between January 1, 2017, and December 31, 2021.

### METHODOLOGY

The primary objective of our evaluation is to determine whether CPSC employees are having appropriate amounts of federal and state taxes withheld from their pay. The evaluation included a 100 percent sample of the federal and state income tax withholdings of all 546 individuals who received wages from the CPSC during CY 2021. Employee withholdings were analyzed for reasonableness as defined in our Withholding Evaluation section on page four.

The evaluation of lock-in letters covers Department of the Treasury Internal Revenue Service lock-in letters received by the CPSC between January 1, 2017, and December 31, 2021. We examined the timeliness of EXRM's implementation of the lock-in instructions.

We obtained an understanding of CPSC's policies and procedures relating to income tax withholding. We conducted interviews with key EXRM personnel, inspected relevant supporting documentation, and analyzed data from the Department of Interior and Department of Treasury.

We used the following criteria during this evaluation:

**Table 1: Schedule of Criteria**

Criteria	Author / Issuing Body	Current version as of June 1, 2022
Council of Inspectors General for Integrity and Efficiency (CIGIE), <i>Quality Standards for Inspection and Evaluation</i>	CIGIE	December 2020
26 United States Code Ch. 24, Subtitle C, sections 3401 – 3406	IRS	Various
Internal Revenue Service Manual	IRS	Various
<i>Standards for Internal Control in the Federal Government</i>	Government Accountability Office	September 2014
Other relevant IRS and state guidance	Various	Various
CPSC policies and procedures	CPSC	Various

We conducted this evaluation in accordance with the 2020 *Quality Standards for Inspection and Evaluation* established by CIGIE. Those standards require that we obtain sufficient data to provide a reasonable basis for reaching conclusions, and require that we ensure 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. We believe that the evidence obtained provides a reasonable basis for our conclusions based on our evaluation objectives.

## APPENDIX A: Federal Income Tax Withholding Outliers

Individual outliers identified in evaluation of federal income tax withholding. See page five for a description of procedures. Individuals appearing on both Appendices A and B are highlighted.

Employee	Expected Federal Withholding	Actual Federal Withholding	Variance \$	Variance %
34	\$15,098	\$12,234	\$2,864	19%
43	\$12,323	\$10,489	\$1,834	15%
49	\$11,753	\$8,918	\$2,835	24%
88	\$8,322	\$6,776	\$1,547	19%
101	\$11,526	\$9,637	\$1,889	16%
115	\$13,892	\$12,290	\$1,601	12%
139	\$12,548	\$9,312	\$3,236	26%
168	\$6,047	\$4,587	\$1,461	24%
171	\$7,356	\$4,107	\$3,248	44%
179	\$7,105	\$5,153	\$1,952	27%
195	\$1,082	\$763	\$319	29%
219	\$20,118	\$15,907	\$4,211	21%
233	\$84	\$47	\$37	44%
238	\$30,284	\$26,159	\$4,124	14%
245	\$7,318	\$5,772	\$1,546	21%
254	\$9,497	\$7,722	\$1,775	19%
279	\$1,193	\$945	\$249	21%
309	\$17,541	\$15,423	\$2,118	12%
329	\$21,068	\$18,897	\$2,170	10%
332	\$26,604	\$20,292	\$6,313	24%
336	\$14,598	\$3,905	\$10,692	73%
352	\$9,665	\$5,562	\$4,103	42%
371	\$6,544	\$5,601	\$943	14%
374	\$6,621	\$5,823	\$798	12%
383	\$6,435	\$866	\$5,570	87%
399	\$15,862	\$13,880	\$1,982	12%
403	\$3,930	\$3,090	\$841	21%
413	\$7,304	\$5,639	\$1,665	23%
425	\$10,999	\$9,442	\$1,557	14%
431	\$27,309	\$23,014	\$4,295	16%
444	\$8,398	\$3,801	\$4,597	55%
450	\$14,204	\$11,372	\$2,832	20%
464	\$9,396	\$6,243	\$3,153	34%
481	\$10,283	\$5,751	\$4,532	44%
489	\$18,191	\$16,059	\$2,132	12%
491	\$5,409	\$4,348	\$1,061	20%
512	\$6,272	\$3,576	\$2,697	43%
530	\$18,654	\$13,602	\$5,052	27%
534	\$21,915	\$19,650	\$2,265	10%
544	\$15,020	\$11,808	\$3,212	21%

Source: GBB analysis of CPSC data.

## APPENDIX B: State Income Tax Withholding Outliers

Individual outliers identified in evaluation of state income tax withholding. See page five for a description of procedures. Individuals appearing on both Appendices A and B are highlighted.

Employee	Expected State Withholding	Actual State Withholding	Variance \$	Variance %
1	\$5,918	\$4,767	\$255	19%
9	\$1,548	\$1,293	\$1,834	16%
16	\$8,228	\$7,262	\$966	12%
26	\$4,859	\$3,899	\$960	20%
29	\$951	\$846	\$105	11%
34	\$7,451	\$6,551	\$900	12%
79	\$4,439	\$3,082	\$1,357	31%
93	\$9,112	\$7,827	\$1,285	14%
102	\$4,007	\$3,434	\$573	14%
112	\$3,199	\$2,347	\$852	27%
133	\$7,754	\$0	\$7,754	100%
141	\$2,241	\$1,982	\$259	12%
149	\$2,670	\$1,911	\$759	28%
150	\$11,153	\$9,036	\$2,117	19%
168	\$5,446	\$4,854	\$592	11%
171	\$2,825	\$1,409	\$1,416	50%
172	\$1,731	\$1,507	\$225	13%
186	\$1,164	\$984	\$180	16%
192	\$9,127	\$7,967	\$1,160	13%
196	\$9,596	\$8,549	\$1,046	11%
216	\$7,994	\$5,921	\$2,073	26%
225	\$2,441	\$2,129	\$312	13%
245	\$6,630	\$5,904	\$726	11%
253	\$1,584	\$1,403	\$180	11%
265	\$9,708	\$8,133	\$1,575	16%
313	\$4,973	\$4,173	\$800	16%
332	\$11,213	\$9,667	\$1,546	14%
337	\$3,088	\$2,628	\$460	15%
344	\$4,232	\$3,595	\$637	15%
352	\$8,086	\$7,221	\$865	11%
376	\$5,528	\$4,823	\$705	13%
387	\$4,167	\$3,418	\$749	18%
408	\$5,306	\$4,688	\$618	12%
424	\$5,388	\$4,715	\$673	12%
431	\$11,450	\$9,663	\$1,787	16%
460	\$6,601	\$5,171	\$1,430	22%
473	\$3,719	\$2,583	\$1,136	31%
480	\$4,690	\$4,214	\$476	10%
507	\$11,105	\$9,718	\$1,387	12%
513	\$864	\$712	\$152	18%
535	\$2,646	\$2,186	\$460	17%

Source: GBB analysis of CPSC data.

## APPENDIX C: Analysis of Lock-in Letters

See page six for a description of procedures. Employees receiving multiple letters are in bold.

Employee	Letter Date	IRS Effective Date	Actual Effective Date, must be within 14 days of IRS Effective Date	EXRM Followed Procedure Without Exception and Within Specified time Frame (Yes/No)
1	10/19/2017	12/12/2017	12/24/2017	Yes
2	11/2/2017	1/1/2018	1/7/2018	Yes
<b>3</b>	<b>11/9/2017</b>	<b>1/8/2018</b>	<b>1/21/2018</b>	<b>Yes</b>
4	11/9/2017	1/8/2018	1/21/2018	Yes
<b>5</b>	<b>8/2/2018</b>	<b>10/1/2018</b>	<b>10/14/2018</b>	<b>Yes</b>
6	8/9/2018	10/8/2018	10/14/2018	Yes
<b>3</b>	<b>8/1/2019</b>	<b>9/30/2019</b>	<b>10/13/2019</b>	<b>Yes</b>
7	8/1/2019	9/30/2019	10/13/2019	Yes
8	8/15/2019	10/14/2019	10/27/2019	Yes
<b>9</b>	<b>8/15/2019</b>	<b>10/14/2019</b>	<b>10/27/2019</b>	<b>Yes</b>
10	9/18/2019	9/18/2019	9/23/2019	Yes
<b>5</b>	<b>10/8/2020</b>	<b>12/7/2020</b>	<b>12/20/2020</b>	<b>Yes</b>
11	10/8/2020	12/7/2020	12/20/2020	Yes
12	10/8/2020	12/7/2020	12/20/2020	Yes
<b>9</b>	<b>11/18/2021</b>	<b>1/10/2022</b>	<b>1/16/2022</b>	<b>Yes</b>

Source: GBB analysis of CPSC data.

# APPENDIX D: Management Response



United States  
**Consumer Product Safety Commission**  
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## Memorandum

**TO:** Christopher Dentel, Inspector General **DATE:** August 15, 2023  
**FROM:** Annette Evans, Deputy Executive Director, Operations Support  
**SUBJECT:** Management Response to OIG's *Evaluation of the CPSC's Compliance with Tax Withholding Requirements*

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We appreciate the opportunity to comment on the draft report of the Office of the Inspector General's *Evaluation of the CPSC's Compliance with Tax Withholding Requirements*. Management concurs with this report. As suggested in your report, the Office of Human Resources Management will continue our efforts to educate staff about their obligations to pay taxes in our monthly newsletters.



For more information on this report please contact us at [CPSC-OIG@cpsc.gov](mailto:CPSC-OIG@cpsc.gov)

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[OIG.CPSC.GOV](http://OIG.CPSC.GOV) or call (301) 504-7906

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