KPMG LLP
Suite 12000
1801 K Street, NW
Washington, DC 20006

Independent Auditors' Report

Chair and Inspector General
United States Consumer Product Safety Commission:

Report on the Audit of the Financial Statements

Qualified Opinion

We have audited the financial statements of the United States Consumer Product Safety Commission (CPSC), which comprise the balance sheet as of September 30, 2023, and the related statements of net cost, changes in net position, custodial activity, and budgetary resources for the year then ended, and the related notes to the financial statements.

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion section of our report, the accompanying financial statements present fairly, in all material respects, the financial position of the United States Consumer Product Safety Commission as of September 30, 2023, and its net costs, changes in net position, budgetary resources, and custodial activity for the year then ended in accordance with U.S. generally accepted accounting principles (GAAP).

Basis for Qualified Opinion

The CPSC reported property, plant, and equipment of $7.0 million, which is net of accumulated depreciation of $50.0 million, on the balance sheet as of September 30, 2023, and depreciation expense of $2.6 million on the statement of net cost during the year then ended. We were unable to obtain sufficient appropriate audit evidence about these amounts and the related information in Notes 5 and 15 because 1) depreciation expense is inappropriately recognized beginning when the CPSC issued a purchase order as opposed to when the asset is placed into service as required by U.S. GAAP, and 2) management did not recalculate the accumulated depreciation and depreciation expense based on the date when the asset is placed into service prior to issuance of the financial statements in order to determine whether differences were material to the financial statements. Consequently, we were unable to determine whether any adjustments to these amounts were necessary.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS), 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. 24-01, *Audit Requirements for Federal Financial Statements*. Our responsibilities under those standards and OMB Bulletin No. 24-01 are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the CPSC and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

Other Matter – Beginning Net Position

As part of our audit of the 2023 financial statements, we also audited the adjustments described in Note 17 that were applied to restate the beginning net position as of October 1, 2022, to correct a misstatement. The CPSC's previously issued financial statements were audited, before the restatement described in Note 17, by other auditors. In our opinion, such adjustments are appropriate and have been properly applied.

KPMG LLP, a Delaware limited liability partnership and a member firm of
the KPMG global organization of independent member firms affiliated with
KPMG International Limited, a private English company limited by guarantee.

Other Matter – Interactive Data

Management has elected to reference to information on websites or other forms of interactive data outside the *Agency Financial Report* to provide additional information for the users of its financial statements. Such information is not a required part of the financial statements or supplementary information required by the Federal Accounting Standards Advisory Board. The information on these websites or the other interactive data has not been subjected to any of our auditing procedures, and accordingly we do not express an opinion or provide any assurance on it.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with U.S. generally accepted accounting principles, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards,* and OMB Bulletin No. 24-01 will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, *Government Auditing Standards,* and OMB Bulletin No. 24-01, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 CPSC's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Required Supplementary Information

U.S. generally accepted accounting principles require that the information in the Management's Discussion and Analysis section be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Federal Accounting Standards Advisory Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with GAAS, 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 basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Management is responsible for the other information included in the *Agency Financial Report*. The other information comprises the About CPSC, About this Report, Message from the Chair, Message from the Chief Financial Officer, Other Information, and Appendices sections but does not include the financial statements and our auditors' report thereon. Our opinion on the financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements as of and for the year ended September 30, 2023, we considered the CPSC's internal control over financial reporting (internal control) as a basis for designing 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 CPSC's internal control. Accordingly, we do not express an opinion on the effectiveness of the CPSC's internal control. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in Exhibits I and II, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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 entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies described as items A, B, and C in Exhibit I to be material weaknesses.

A significant deficiency is a deficiency, or a 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. We consider the deficiency described as item D in Exhibit II to be a significant deficiency.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the CPSC's financial statements as of and for the year ended September 30, 2023, are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. 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. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 24-01.

We also performed tests of the CPSC's compliance with certain provisions referred to in Section 803(a) of the *Federal Financial Management Improvement Act of 1996* (FFMIA). Providing an opinion on compliance with FFMIA was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances in which the CPSC's financial management systems did not substantially comply with the (1) Federal financial management systems requirements, (2) applicable Federal accounting standards, and (3) the United States Government Standard General Ledger at the transaction level.

CPSC's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the CPSC's response to the findings identified in our audit and described in Exhibit III. The CPSC's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of the Reporting Required by Government Auditing Standards

The purpose of the communication described in the Report on Internal Control Over Financial Reporting and the Report on Compliance and Other Matters sections is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the CPSC's internal control or compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Washington, DC
February 1, 2024

Exhibit I
Material Weaknesses

A. Entity-Level Controls

Entity-level controls are an integral component of internal control systems of an entity and serve as a foundation of the processes management uses to guide its operations. These controls encompass the control environment, risk assessment, information and communication, and monitoring activities for the CPSC. When operating effectively, an effective internal control system increases the likelihood that an entity will achieve its objectives. The CPSC has weaknesses in its entity-level controls within the following areas:

- Succession and contingency planning: CPSC management did not have a comprehensive financial management succession plan to ensure appropriate personnel with the required competence in financial management operations and reporting experience were available to perform the requisite responsibilities after the resignation of two key personnel from the Office of Financial Management, Planning, and Evaluation. Furthermore, CPSC management had no process in place to ensure information regarding key historical financial reporting decisions was maintained such that newly hired personnel would be able to assume the responsibilities of the positions with the relevant financial information.

- Training and communication: CPSC financial management employees did not have adequate training to ensure they had the necessary knowledge to meet their control objectives. Additionally, there were inadequate communication channels between offices within CPSC to ensure relevant and necessary financial reporting information requirements were communicated timely to achieve financial reporting deadlines.

- Risk assessments: CPSC management did not conduct regular and comprehensive risk assessments to identify, evaluate, and document potential risks that could impact financial reporting objectives. As such, necessary responses to those risks were not in place.

- Monitoring and oversight: CPSC management did not have sufficient processes in place to monitor its internal control over financial reporting. Accordingly, certain controls were not performed during the fiscal year.

This lack of effective entity-level controls increased the risk of CPSC not achieving its financial reporting and management objectives. Furthermore, it increased the risk that misstatements may go undetected and uncorrected by management. Lastly, the deficiencies in entity-level controls resulted in certain deficiencies in process level controls that resulted in known misstatements that were subsequently corrected, including:

- The beginning balance of fiscal year 2023 net position was misstated by $8.4 million related to the fiscal year 2022 accrued expenses, requiring a restatement of the balance in the current year. In addition, management misstated and subsequently corrected the current year accounts payable balance by $3.1 million.

- Pre-payments of $2.7 million were incorrectly expensed; management subsequently capitalized the balance.

- Property, plant, and equipment additions were recognized as of the date of purchase order rather than when the asset was placed into service. This error also impacted the calculation of depreciation expense for the current and prior years.

- Adjustments were required for the compilation of the financial statements and related notes as noted in findings B, and D.

The deficiencies noted above occurred because CPSC management did not have adequate resources dedicated to its enterprise risk management process to ensure that entity level controls were designed, implemented, and operating effectively throughout the year. Further, a loss of key institutional knowledge of financial operations and reporting within CPSC Office of Financial Management, Planning, and Evaluation was experienced.

GAO's *Standards for Internal Control in the Federal Government* (Green Book) Principles 2 – Exercise Oversight Responsibility, 4 – Demonstrate Commitment to Competence, 7 – Identify, Analyze and Respond to Risk, 14 – Communicate Internally and 16 – Perform Monitoring Activities are relevant to the conditions noted.

To address the deficiencies noted, we recommend that agency management:

1. Perform an assessment of employee resources in the Office of Financial Management, Planning, and Evaluation, and other relevant financial process areas to ensure an appropriate complement of resources are in place to manage accounting and reporting matters as they arise and through their normal course of business.

2. Provide training and supervision for personnel on financial management matters that affect the financial statements, including adhering to accounting policies and procedures, as appropriate, and performing key internal control functions in support of financial reporting.

3. Develop desktop manuals to assist new personnel in meeting their assigned responsibilities.

4. Improve the risk assessment process at the financial statement assertion and process level to ensure that CPSC management is appropriately capturing significant changes in the control environment and subsequently responding to those risks.

5. Implement key monitoring controls over the financial reporting process and develop robust policies and procedures to increase oversight, review, and accountability of accounting events at the process level to ensure the successful implementation of an effective internal control environment.

B. Controls Over Estimates Related to Accrued Expenses

The CPSC updated its methodology for estimating accrued expenses as of year-end in fiscal year 2022. The then new methodology assumed that expenses for goods and services would be incurred evenly over the period of performance of the related contract (i.e., straight-line assumption). However, CPSC management did not design, document, or implement processes and controls to test the straight-line assumption used to estimate their accrued expenses. Specifically, CPSC management did not consider and document their consideration of whether the output of their estimate was reflective of the actual expenses incurred during the period of performance. In fiscal year 2023, CPSC management performed a retrospective analysis of its prior year estimate; in performing the analysis, management initially incorrectly included out of period expense items in the analysis. Additionally, CPSC's methodology inappropriately included obligations that were no longer valid; property, plant, and equipment that had not been received, or for which title had not transferred; and expenses that had been pre-paid.

Management concluded that there were errors in the straight-line assumption used for estimating accrued expenses as of the prior period-end. The incorrect assumption used for estimating the accrued expenses resulted in a material misstatement of the fiscal year 2022 accounts payable of $8.4 million. Further, management initially recorded the fiscal year 2023 estimated accrued expenses using the same prior year methodology which resulted in an overstatement of $3.1 million in accrued expenses that management corrected. In fiscal year 2023, management restated its opening net position to correct the

material misstatement of the prior year accounts payable and revised its methodology for estimating accrued expenses as of year-end.

The deficiencies noted above occurred because CPSC management did not perform an adequate risk assessment process that was responsive to changes occurring during the implementation of management's accrued expense estimate methodology update in fiscal year 2022. Policies that considered the requirements of the applicable financial reporting standards were not implemented, nor were alternative estimation methods, data and assumptions for the accrual methodology considered and documented as part of the development of the estimate.

GAO Green Book Principles 7 – Identify, Analyze and Respond to Risk, 10 – Design Control Activities, and 12 –Implement Control Activities are relevant to the conditions noted.

To address the deficiencies noted, we recommend that agency management:

6. Perform a risk assessment that considers the relevant standards and financial reporting and disclosure requirements for the estimation of accrued expenses, and the method, data and assumptions used in the estimate.

7. Develop and update policies and procedures, including the design and implementation of controls, to address the risks identified from the risk assessment and a periodic retrospective review.

8. Provide training to employees on new or updated policies and procedures.

C. Controls Over Property, Plant, and Equipment

CPSC management did not design, document, or implement adequate processes and controls related to the recording of property, plant, and equipment (PP&E) additions, the related depreciation expense, and appropriateness of the estimated useful life. The following errors resulted from these deficiencies:

- For one of four new additions sampled, the CPSC had previously recorded an accrual of $323,267 for the asset. However, the underlying asset had not been placed into service as of that date. Management recorded additional accruals for assets that had not been received nor title transferred in the amount of $69,674.

- For three out of the four samples selected, management incorrectly recorded the asset placed into service date based on the contract or purchase order date as listed in the Property Management System (PMS), instead of the date that aligns to the date placed in service and management's accounting policy. Using the incorrect date placed in service overstated the calculation of depreciation expense for prior periods.

Furthermore, CPSC management did not perform an analysis over the estimated useful life of PP&E, resulting in $2.6 million of furniture and fixtures and $17.4 million of equipment that had been fully depreciated but remained in use as of September 30, 2023.

A lack of processes and controls to accurately record and track PP&E, and its related depreciation expense, may result in errors in PP&E acquisitions not being detected and corrected. Additionally, the lack of analysis over the useful life of PP&E may result in assets incorrectly becoming fully depreciated while still providing economic benefit to the CPSC, which may result in incorrectly matching expenses with the proper accounting period and ultimately an understatement of the PP&E net book value. As management had not completed a full analysis over the impact of the condition, management was unable to determine whether any adjustments to these accounts were necessary.

The deficiencies noted above occurred because CPSC management did not have a sufficient understanding of the PMS and Oracle systems used for processing acquisitions of PP&E and the applicable accounting standards related to PP&E. Additionally, the CPSC lacked adequate communication across support offices during the acquisition process to effectively determine the appropriate date placed in service for PP&E.

GAO Green Book Principles 4 – Demonstrate Commitment to Competence and 14 – Communicate Internally; are relevant to the conditions noted.

To address the deficiencies noted, we recommend that agency management:

9. Document the acquisition process and necessary requirements to determine the appropriate date placed in service for PP&E, and update and enhance policies and procedures to align with the requirements of the applicable financial reporting standards.

10. Design and implement controls in accordance with the updated policies and procedures to ensure PP&E balances are completely and accurately recorded in the general ledger.

11. Establish recurring communication with appropriate support office personnel to ensure necessary PP&E information is available for analysis.

12. Perform a detailed review of PMS and Oracle systems to determine if further adjustments are necessary to the acquisition date of CPSC's PP&E to reflect the actual date placed in service.

13. Consult with appropriate support office personnel to perform a detailed analysis of estimated useful lives of PP&E.

D. Identification of Pre-paid Expenses

CPSC management has a non-GAAP policy to expense all pre-payments; however, CPSC did not have processes or controls in place to identify and assess the potential impact of this non-GAAP policy. Management recorded $6.8 million of expenses throughout the fiscal year that were paid before the expense was incurred. As of September 30, 2023, $2.7 million of these expenses remained pre-paid because services had not been provided, or goods received, for which management recorded an adjustment in the current year.

Insufficient policies and procedures to assess the impact of non-GAAP policies, including failing to update their non-GAAP accounting policies when they are no longer inconsequential to the financial statements, may result in CPSC management failing to detect and correct a material misstatement in the financial statements.

The deficiency noted above occurred because CPSC management did not have sufficient risk assessment policies and procedures to periodically identify, analyze, and respond to risks of a potential material misstatement of the financial statements related to unreported prepaid expenses.

GAO Green Book Principles 6 – Define Objectives and Risk Tolerances, and 7 – Identify, Analyze and Respond to Risk; are relevant to the conditions noted.

To address the deficiencies noted above, we recommend that agency management:

14. Formalize and document a policy over prepaid expenses, including consideration of compliance with GAAP.

15. Design a control to identify, analyze, and respond to risks related to the reporting of pre-paid expenses.

16. Perform a thorough analysis of any other potential non-GAAP practices and policies.

Exhibit III
Management's Response

United States
Consumer Product Safety Commission

MEMORANDUM

Date: January 24, 2024

To: Christopher W. Dentel
Inspector General

From: Austin C. Schlick
Executive Director

AUSTIN SCHLICK Digitally signed by AUSTIN SCHLICK Date: 2024.01.24 16:51:54 -05'00'

Subject: Management Response to Independent Auditor's Draft Report

I appreciate the opportunity to provide input on the FY 2023 Independent Auditor's Draft Report of the CPSC's Financial Statements (Draft Report) and would like to thank the Office of Inspector General and the entire audit team for their partnership and support during the FY 2023 annual audit process. CPSC management acknowledges the identification of three material weaknesses, as well as one significant deficiency regarding prepayment processes and controls. As indicated below, management intends to timely address the findings.

Material Weaknesses

Entity-Level Controls. The auditors observed weaknesses in entity-level controls in the areas of succession and contingency planning, training and communication, risk assessment, and monitoring and oversight. The Draft Report concludes that these led to undetected errors in the balance of net position, pre-paid assets, the date when additions to plant, property, and equipment (PPE) were recognized, and the calculation of depreciation expenses. CPSC management acknowledges these entity-level control findings and will develop and implement a plan to remediate them.

Controls over Estimates Related to Accrued Expenses. In FY 2022, CPSC updated its methodology for estimating accrued expenses but, the auditors found, did not fully document or validate the updated approach. CPSC management acknowledges the findings noted in the Draft Report and will develop and implement a plan to remediate them.

Controls Over Property, Plant, and Equipment (PPE) Additions. The auditors noted a lack of adequate processes and controls for recording PPE additions and related depreciation expense, and determining the appropriateness of CPSC's estimated useful life. CPSC management acknowledges these findings and will develop and implement a plan to remediate them.

U.S. Consumer Product Safety Commission
4330 East-West Highway
Bethesda, MD 20814
cpsc.gov

National Product Testing & Evaluation Center
5 Research Place
Rockville, MD 20850

United States
Consumer Product Safety Commission

Significant Deficiency

The auditors observed a lack of adequate processes and controls to identify and report prepayments. The Draft Report finds that as a result, prepayments were inappropriately categorized as expenses rather than assets on the financial statements. CPSC acknowledges this finding and will develop and implement in a plan to remediate it.

The agency takes its fiscal responsibilities seriously and continues to have a high degree of confidence in the integrity of CPSC's financial operations and programs and our ability to continuously improve them.

U.S. Consumer Product Safety Commission
4330 East-West Highway
Bethesda, MD 20814
cpsc.gov

National Product Testing & Evaluation Center
5 Research Place
Rockville, MD 20850