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February 1, 2024

Mr. James Baker, Chief Financial Officer
United States Consumer Product Safety Commission
Bethesda, MD 20814

To the management of United States Consumer Product Safety Commission:

In planning and performing our audit of the financial statements of United States Consumer Product Safety Commission (CPSC) as of and for the year ended September 30, 2023, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government* Auditing *Standards* issued by the Comptroller General of the United States, 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.

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 and/or significant deficiencies and therefore, material weaknesses and/or significant deficiencies may exist that were not identified. In accordance with *Government Auditing Standards*, we issued our report dated February 1, 2024, on our consideration of the CPSC's internal control over financial reporting in which we communicated certain deficiencies in internal control that we consider to be material weaknesses and a significant deficiency.

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. During our audit, we identified certain deficiencies in internal control. These comments and recommendations are summarized in Exhibit I.

The CPSC's responses to the deficiencies identified in our audit are presented in Exhibit I. The CPSC's responses were not subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on it.

This purpose of this letter is solely to describe the deficiencies in internal control identified during our audit. Accordingly, this letter is not suitable for any other purpose.

Very truly yours,

KPMG LLP

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A. Risk of Invalid Open Obligations

The CPSC management did not have sufficient review controls in place to assess the validity of open obligations. Specifically, there were three open obligations identified that had no activity during the year ending September 30, 2023, and for which the applicable contracting officer's representatives (COR) had confirmed that work was completed, and no further invoices were expected from the vendor. The total amount remaining obligated for these three items was approximately $251,000.

The above instance occurred because CPSC management did not have sufficient policies and procedures to identify, analyze, and respond to the risk of invalid open obligations. Furthermore, the CPSC lacked sufficient communication across support offices to assist CORs and contracting officers in effectively assessing the validity of open obligations and taking appropriate corrective action on a periodic basis. Insufficient policies and procedures could result in reporting obligations that are no longer valid and delaying the release of additional funding for other purposes. Specifically, we noted there were $2.5 million of open obligations that did not have activity during the year ending September 30, 2023.

GAO's *Standards for Internal Control in the Federal Government* (Green Book) Principles 10 – Design Control Activities, 12 –Implement Control Activities, and 14 – Communicate Internally are relevant to the conditions noted.

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

1. Update policies and procedures to identify, analyze, and respond to risks related to potential invalid open obligations.

2. Establish recurring communication with the appropriate support offices to assist in the identification and de-obligation of invalid open obligations.

<u>Management's Response:</u>

CPSC has a review process in place for reviewing open obligations. We consider the total contract end date with all option years when reviewing open obligations. Vendors, however, have five years to render bills to CPSC and some do not bill in a timely manner. Thus, some obligations remain open until the contract close out process begins, which includes contacting the vendor and providing a last opportunity to submit any outstanding invoices. CPSC management will consider the recommendations provided when developing a corrective action plan to further strengthen its current process of reviewing open obligations.

<u>Auditors' Response:</u>

Although management asserted that they have a review process in place for reviewing open obligations, as noted in the comment, we identified three sample items in which the COR confirmed all work was complete for the contract and no further invoices were expected from the vendor. As such, we did not revise this comment and the associated recommendations. Management indicated that they will consider the recommendations to address the matters identified in this comment. Follow-up procedures will be conducted in fiscal year 2024 to determine whether corrective actions have been implemented.

B. Identification and Logging of Leases

CPSC management did not have sufficient controls or processes in place to identify, log, and determine the financial reporting requirements for all operating leases. We identified fleet and other operating leases that had not been previously identified or disclosed by CPSC management, and for which management had not logged the value and term of the leases to assess potential financial reporting requirements.

The above instance occurred because the CPSC management did not have sufficient policies and procedures to identify, analyze, and respond to risks related to the identification and disclosure of leases. Furthermore, the CPSC lacked communication across support offices to effectively identify and log these leases. Insufficient policies and procedures may result in noncompliance with applicable financial reporting disclosure requirements. Specifically, management identified an additional $508,000 in operating leases not previously logged.

GAO Green Book Principles 6 – Define Objectives and Risk Tolerances, 7 – Identify, Analyze and Respond to Risks, 10 – Design Control Activities, and 14 – Communicate Internally are relevant to the condition noted.

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

3. Update policies and procedures to identify, analyze, and respond to risks related to the financial reporting of leases.

4. Perform a thorough impact analysis of any updated policies and procedures that may not be in compliance with generally accepted accounting principles.

5. Establish recurring communication with the appropriate support offices to assist in the identification of all leases that may be subject to financial reporting requirements.

<u>Management's Response:</u>

CPSC management intends to develop a corrective action plan that includes a process to identify, log, and determine financial reporting requirements for all operating leases.

Regarding fleet leases, CPSC management does not agree that it is the lease holder of General Services Administration (GSA) Fleet vehicles. Rather, GSA is the lease holder. 41 CFR § 101-26.501-9 states "GSA has a centralized leasing program to provide an additional source of motor vehicle support to all Federal agencies. This program relieves Federal agencies that use it from both the time constraints and administrative costs associated with independently entering into lease contracts." The GSA Fleet Customer Leasing Guide (January 22, 2020) similarly states at page 7 that "leasing agreements are not required for standard operating agreements with GSA Fleet Leasing." Therefore, CPSC management asserts that is not required to report and disclose GSA Fleet vehicles as leases in its financial reporting.

<u>Auditors' Response:</u>

Management did not concur with a portion of the $508,000 identified as potential operating leases, as they asserted that GSA fleet vehicle leases should be excluded from financial reporting requirements. Although management provided certain documentation during the audit, it was not sufficient to properly demonstrate that management had been maintaining a log of all potential leases, including GSA fleet leases, and determining their potential financial reporting impact throughout the fiscal year. As such,

we did not revise this comment and the associated recommendations. Management indicated that they will develop a corrective action plan to address the matters identified in this comment. Follow-up procedures will be conducted in fiscal year 2024 to determine whether corrective actions have been implemented.

C. Review of Service Auditors' Report

CSPC management did not proactively request the Bureau of Fiscal Service Administrative Resource Center's (ARC) review of the Invoicing Processing Platform's (IPP) complementary controls and the IPP service auditors' report to verify whether exceptions had been reported, and if so, whether the exceptions impacted CPSC's control environment.

The above instance occurred because CPSC management relied on ARC representatives to communicate to CPSC management all relevant information over the operating effectiveness of IPP's controls and did not proactively obtain ARC's review of the IPP service auditors' report. If the ARC representative did not communicate any IPP service auditor deficiencies or provide relevant information, CPSC assumed that IPP controls were operating effectively. However, reactive monitoring of the IPP's service auditors' report could result in CPSC being unaware of identified issues within IPP's internal controls that could impact CPSC's control environment.

GAO Green Book Principle 16 – Monitoring Activities is relevant to the condition noted.

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

6. Update policies and procedures to proactively request ARC's assessment of the IPP service auditors' report and confirm that all relevant controls are operating effectively.

Management's Response:

CPSC management's position that it has complementary controls in place is based on ARC's Statement on Standards for Attestation Engagements (SSAE) 18 audit report dated September 29, 2023. ARC SSAE18 control objective 22, page 113, states, "The reviews are approved by management and documentation on the subservice organizations is made available to customer agencies. ARC contacts the subservice organization to obtain additional information for exceptions, if applicable." Because ARC's SSAE18 report states that ARC has the responsibility to contact the subservice organization for exceptions, if applicable, and because ARC did not provide notification of such nor is an IPP exception noted in the SSAE report itself, CPSC has reasonable assurance that the IPP system is operating effectively as designed.

Auditors' Response:

Management did not concur with the comment as they asserted that complementary controls are in place in the SSAE 18 audit report. As stated in our comment, reactive monitoring of the IPP's service auditors' report could result in CPSC being unaware of identified issues. As such, we did not revise this comment and the associated recommendation.