February 1, 2024

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

FROM: Christopher W. Dentel, Inspector General Christopher W. Dentel Digitally signed by Christopher W. Dentel Date: 2024.02.01 15:09:11 -05'00'

SUBJECT: Audit of the Consumer Product Safety Commission's Fiscal Year 2023 Financial Statements

Pursuant to the Accountability of Tax Dollars Act of 2002, this letter transmits the Independent Auditors' Report issued by KPMG, LLP (KPMG), for the fiscal year (FY) ending September 30, 2023. 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. 24-01, *Audit Requirements for Federal Financial Statements*.

This year, as a result of internal control weaknesses surrounding financial management, the Consumer Product Safety Commission (CPSC) faced a number of challenges regarding the issuance of its financial statements. These challenges primarily related to the loss of key personnel in the Office of Financial Management, Planning, and Evaluation and a related lack of adequate succession planning. It requested and received permission from the Office of Management and Budget to issue its financial statements on January 26, 2024, rather than November 15, 2023, and to use a "single year" presentation rather than the required comparative (two year) presentation. Later, when it became apparent that the CPSC would not be able to make the January 26, 2024, deadline, it requested and received a second extension until February 2, 2024. The CPSC overcame the majority of the challenges it faced and did issue audited financial statements on February 1, 2024. However, it received a "qualified" opinion. This was due to the agency inappropriately calculating the accumulated depreciation and depreciation expense related to its Property, Plant, and Equipment and being unable to recalculate said accumulated depreciation and depreciation expense in a timely manner.

Other than the above-described matter, the 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). However, it should be noted that the beginning balance of net position for FY 2023 was originally materially misstated by

$8.4 million, requiring a restatement. Additionally, it was determined that due to a lack of: competent personnel in key positions, training, communication across offices, risk assessments, and monitoring processes the CPSC's system of internal control contained three material weaknesses and a significant deficiency. All of the above matters are further detailed below and in the Independent Auditor's Report.

Opinion on the Financial Statements

KPMG audited the financial statements of the CPSC, which comprise the balance sheet as of September 30, 2023, 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; collectively known as the 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, KPMG also considered the CPSC's internal controls over financial reporting and tested the CPSC's compliance with certain provisions of applicable laws and regulations that could have a material effect on its financial statements.

In KPMG's opinion, except for the possible effects of the matter described in the "Basis for Qualified Opinion" section of their report, the financial position, net cost, changes in net position, budgetary resources, and custodial activity of the CPSC as of, and for the year ending September 30, 2023, are presented in conformity with accounting principles generally accepted in the United States of America.

Basis For Qualified Opinion

In FY 2023, the CPSC reported property, plant, and equipment of $7.0 million, net of accumulated depreciation of $50.0 million in the balance sheet as of September 30, 2023. The CPSC also included information related to the property, plant, and equipment and accumulated depreciation in Notes 5 and 15. KPMG was unable to obtain sufficient appropriate audit evidence about the recognition dates used to record property, plant, and equipment additions and the corresponding calculation of depreciation expense for FY 2023. Consequently, KPMG was unable to determine whether any adjustments to these amounts were necessary.

Report on Internal Control

In planning and performing the audit of the financial statements of the CPSC, KPMG considered the CPSC's internal controls over financial reporting (internal controls) 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 controls. Accordingly, KPMG did not express an opinion on the effectiveness of the CPSC's internal controls.

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 material weakness is a deficiency, or 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.
- 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.

KPMG's consideration of internal controls was for the limited purpose described above and would not necessarily identify all deficiencies in internal controls that might be significant deficiencies or material weaknesses. KPMG did identify multiple deficiencies in internal control as detailed below.

KPMG found that CPSC management has a material weakness at the entity level of internal control over its financial reporting and financial management. Entity level internal controls help management achieve desired results through effective stewardship of public resources. Specifically, KPMG found that the CPSC:

- Lacked a comprehensive succession plan to ensure appropriate personnel with the required competence were available after the resignation of key personnel from the Office of Financial Management, Planning, and Evaluation. Management also lacked a process to ensure historical information regarding key financial reporting decisions was maintained for newly hired personnel.
- Failed to adequately train employees to ensure they had the necessary knowledge and information to meet their control objectives. The CPSC also had inadequate communication channels between offices within the CPSC to ensure financial information was communicated timely and accurately.
- Failed to perform regular and comprehensive risk assessments to identify and evaluate potential risks that could impact financial reporting objectives.
- Did not have sufficient monitoring processes in place to assess its internal control environment for compliance with GAO Green Book principles.

Due to the lack of effective entity level controls, the CPSC experienced additional material weaknesses that impacted the presentation of the financial statements. First, due to inadequate training on the CPSC's Property Management System (PMS) and the lack of adequate communication across supporting offices, the CPSC improperly recorded the contract or purchase order date into PMS in lieu of the title or delivery date. As the CPSC was unable to provide KPMG with sufficient and appropriate audit evidence to estimate the financial impact related to this error, KPMG was unable to determine whether any adjustments to Property, Plant, and Equipment; Accumulated Depreciation, and Depreciation Expense were necessary, thus resulting in a material weakness and a qualified opinion of the financial statements.

Additionally, due to a combination of a lack of a succession planning, lack of training, and the failure to perform a risk assessment, the CPSC's methodology for estimating its accrued expenses resulted in a material misstatement of the accounts payable and expense accounts requiring adjustments to both the beginning balance of net position and FY 2023 gross cost.

Furthermore, due to a lack of adequate training of personnel for the Invoice Processing Platform and the insufficient monitoring of financial reporting, the CPSC failed to record prepaid expenses within the financial statements and notes, resulting in an overstatement of expenses and an understatement of assets in FY 2023. KPMG considered this final matter to constitute a significant deficiency.

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 the CPSC's financial statements are free of material misstatements, KPMG performed tests of compliance with certain provisions of laws and regulations, noncompliance which could have a material effect on the determination of financial statement amounts, and certain other laws and regulations specified in OMB Bulletin No. 24-01. KPMG did not test compliance with all laws and regulations applicable to the CPSC.

KPMG's tests of compliance with laws and regulations described in the audit report did not disclose any instances of non-compliance that are required to be reported by Government Auditing Standards.

OIG Evaluation of KPMG's Audit Performance

We reviewed KPMG's report and related documentation and made necessary inquiries of its representatives. Our review, as differentiated from an audit in accordance with 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. KPMG is responsible for the attached auditors' report. However, the OIG review disclosed no instances where KPMG did not comply, in all material respects, with Government Auditing Standards.

We appreciate the courtesies and cooperation extended to KPMG and OIG staff during the audit. If you should have any questions concerning this report, please contact my office at (301) 504-7905.

Attached:

Audit Report
Financial Statements as shown in the agency's Annual Financial Report