



**WithumSmith+Brown A Professional  
Corporation Certified Public Accountants and  
Consultants**

**U.S. CONSUMER PRODUCT SAFETY COMMISSION**

**Performance Audit of  
Performance and Incentive Awards and Within-Grade Increases Program**

**April 21, 2014**



U.S. CONSUMER PRODUCT SAFETY COMMISSION  
WASHINGTON, DC 20207

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Inspector General

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Date: April 22, 2014

TO : Robert S. Adler, Chairman (Acting)  
Marietta Robinson, Commissioner  
Ann Marie Buerkle, Commissioner

FROM : Christopher W. Dentel, Inspector General

SUBJECT: Performance and Incentive Awards and Within-Grade Increase Program Audit

The purpose of the CPSC's Performance and Incentive Awards and Within-Grade Increase Program (Awards Program) is to recognize outstanding performance by employees and to encourage increased productivity and efficiency in agency operations. It provides managers a way to recognize excellent performance, exceptional achievement, constructive ideas, and suggestions that conserve work time or increase program effectiveness.

The CPSC's Awards Program is governed primarily by local agency guidance in the form of CPSC Directive System Order 1024.1, *Employee Evaluation and Recognition, Performance and Incentive Awards Programs and Within-Grade Increases*. The purpose of the guidance is to establish policies and procedures for implementing the CPSC's Performance and Incentive Awards component of its Performance Management System in accordance with Federal law and Office of Personnel Management (OPM) requirements.

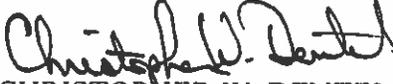
The CPSC OIG retained the services of Withum, Smith & Brown (WS+B) an independent certified public accounting firm, to assess the Award Program's compliance with laws and regulations and to measure the effectiveness of the program at meeting its stated goals. Under a contract monitored by the Office of Inspector General, WS+B concluded that the CPSC had effectively implemented the annual appraisal and performance rating component of its Awards Program. The CPSC had written policies and procedures that established performance standards for the evaluation of employee job performance in compliance with federal laws and regulations. The process is documented in accordance with OPM requirements and subsequently reported to OPM's Central Personnel Data File; where all personnel actions for the federal workforce are maintained. Based on WS+B's audit testing, they found that the CPSC's appraisal and performance rating process were in compliance with CPSC and OPM requirements. However, they found no written policies and procedures at the agency or organization level for how cash

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awards were to be proportionately allocated based on employee ratings, and they were not provided documentation to support how final allocation decisions were made. Without a documented, consistent approach for allocating cash awards at the organization level, the program is open to the perception of inequity and abuse. Due to this lack of internal controls, the cash awards component of CPSC's Awards Program was found to not be operating effectively.

In connection with the contract, we reviewed WS+B's report and related documentation and inquired of its representatives. Our review, as differentiated from an audit in accordance with generally accepted government auditing standards, was not intended to enable us to express, and we do not express, an opinion on the matters contained in the report. WS+B is responsible for the attached report. However, our review disclosed no instances where WS+B did not comply, in all material respects, with generally accepted government auditing standards.

If you have any questions please feel free to contact me at (301) 504-7644.

  
CHRISTOPHER W. DENTEL  
Inspector General

Attached: Audit Report

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April 21, 2014

Mr. Robert S. Adler  
Acting Chairman, Consumer Product Safety Commission  
4330 East West Highway  
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## EXECUTIVE SUMMARY

We were engaged by the Consumer Product Safety Commission (CPSC), Office of Inspector General (OIG), to conduct a performance audit of CPSC's Performance and Incentive Awards and Within-Grade Increases Program (Awards Program). 5 United States Code § 4302, *Establishment of Performance Appraisal Systems*, requires that each agency develop one or more performance appraisal systems which 1) provide for periodic appraisals of job performance of employees; 2) encourage employee participation in establishing performance standards; and 3) use the results of performance appraisals as a basis for training, rewarding, reassigning, promoting, reducing in grade, retaining, and removing employees.

CPSC's Awards Program is governed primarily by CPSC Directive System Order 1024.1, *Employee Evaluation and Recognition, Performance and Incentive Awards Programs and Within-Grade Increases*, which establishes the agency's policies and procedures for implementing the performance and incentive awards component of its Performance Management System. The stated purpose of the program is to motivate employees by recognizing and rewarding high levels of performance which contributes to the accomplishment of management goals and objectives. CPSC also follows appropriate Office of Personnel Management (OPM) regulations, procedures, and guidance in pay administration.

This report presents the results of our work conducted to address the performance audit objectives as specified by the OIG. Our audit objectives were to assess Awards Program compliance with laws and regulations and to measure the effectiveness of the program at meeting its stated goals.

We found that CPSC has effectively implemented the annual appraisal and performance rating component of its Awards Program. CPSC has written policies and procedures that establish performance standards for evaluation of employee job performance in compliance with federal laws and regulations. The process is documented in accordance with OPM requirements and subsequently reported to OPM's Central Personnel Data File where all personnel actions for the federal workforce are maintained. Based on our audit testing, we found CPSC's appraisal and performance rating process to be in compliance with CPSC and OPM requirements.

However, we found no written policies and procedures at the agency or organization level for how cash awards are proportionately allocated based on employee ratings, and we were not provided documentation to support how final allocation decisions were made. Without a documented, consistent approach for allocating cash awards at the organization level, the program is open to the perception of potential inequity and abuse. Due to this lack of internal controls, the cash awards component of CPSC's Awards Program is not operating effectively.

Our work was performed during the period December 2012 to July 2013. We conducted this performance audit in accordance with generally accepted government

auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

CPSC stated that cash awards are given in accordance with the criteria outlined in the directive and performance awards directly linked to appraisals. Management's complete response to our report is in Appendix D.

## **OBSERVATIONS**

### Introduction

CPSC's Awards Program is regulated by the Office of Personnel Management. The program dates back to 1983 when the Pendleton Act or Civil Service Act was enacted. The Act established a merit system to end favoritism and required promotion by merit competition.

The purpose of the program is to recognize outstanding performance by employees and to encourage increased productivity and efficiency in agency operations. It provides a way to recognize excellent performance, exceptional achievement, constructive ideas, and suggestions that conserve work time or increase program effectiveness.

CPSC's Awards Program is governed primarily by local agency guidance in the form of CPSC Directive System Order 1024.1, *Employee Evaluation and Recognition, Performance and Incentive Awards Programs and Within-Grade Increases*. The purpose of the guidance is to establish policies and procedures for implementing CPSC's Performance and Incentive Awards component of its Performance Management System in accordance with federal legislation and OPM requirements.

### Awards

Differences in levels of work and performance are recognized by pay distinctions through promotions and within-grade increases. It is the Commission's policy to grant Performance and Incentive Awards in recognition of excellence in performance. In fiscal year 2011 this program involved approximately 320 total awards (Cash, Time-Off, Quality Step Increase, etc.) totaling approximately \$460,000 award dollars.

Each agency has a variety of awards available to reward their employees. Quality Step Increase (QSI) is a faster than normal within-grade increase used to reward employees at all General Schedule (GS) grade levels who display high quality performance. To be eligible for a QSI, an employee must: 1) be below step 10 of their grade level; 2) have received the highest rating available under their performance management program; 3) have demonstrated sustained performance of high quality, and 4) have not received a QSI within the preceding 52 consecutive calendar weeks.

Performance cash awards may be awarded to those employees whose most current appraisal rating is at the "Fully Successful" level or higher. The cash award does not increase an employee's basic pay. The award may not exceed an amount greater than 10 percent of an employee's salary or up to twenty percent for exceptional performance.

The program also permits for cash awards to be made to employees for Special Act or Service Recognition. Employees can qualify for this award if they perform a special act or service in the public interest in connection with or related to his/her official employment. Other awards include granting time off from duty without loss of pay, a charge to leave as an award in recognition of superior accomplishment, or an award for other personal effort that contributes to the quality, efficiency, or economy of Government operations. Employee suggestions, invention, or honor awards may also be awarded.

Our audit included approximately 320 awards from 63 organizations within CPSC. From the awards, we selected a random sample of 52 awards from 34 of the organizations. We interviewed the individuals responsible for program oversight, award nomination, employee evaluation, review of documentation and reasonableness of award ratings, and approval of cash awards recommended.

### Condition

We found that CPSC has effectively implemented the annual appraisal and performance rating component of its Awards Program. CPSC has written policies and procedures which establish performance standards for each type of award that provides the basis for evaluation of employee job performance annually. The standards are communicated to each employee along with the critical elements of the employee's position. Annually each employee is evaluated during the appraisal period on

such standards, and employees are rewarded with cash or non-cash awards, if warranted, based on their performance.

In addition, OPM requires agencies to evaluate their awards programs, as well as document all cash and time-off awards in compliance with the OPM Operating Manual. Award data is subsequently reported to OPM's Central Personnel Data File system where all personnel actions for the federal workforce are maintained. CPSC's documentation of the appraisal and ratings process was found to be in compliance with OPM requirements.

For cash awards, once performance ratings are determined and approved, those employees who receive an overall performance rating of "Fully Successful" or higher are eligible for a lump-sum cash award. A percentage of CPSC's salary budget, as determined by OPM, is the maximum amount available for award each fiscal year. The CPSC Awards Budget Manager allocates the amounts to the organizations within the agency, and the Approving Officials are given the responsibility to allocate the funds among the award-eligible employees in their organizations.

However, there are no written policies and procedures at the agency or organization level for how the funds are to be proportionately allocated. Based on our interviews, in addition to an individual's performance rating and grade level, examples of other criteria considered include such performance attributes as job description, job complexity, work load, impact to the agency's mission, cost benefit of an employee's contribution, and personal knowledge of an employee's effort. In other words, an additional set of criteria, not communicated to the employees, is utilized to allocate cash awards after performance ratings are approved. The approach followed is unique to each organization within CPSC which is permitted by OPM in order to better meet the needs of the agency, but the selection of attributes for allocating cash awards is arbitrary and can change from year-to-year based on who is making the decision. Without written policies and procedures to define a consistent approach for allocating cash awards within a CPSC organization and no documentation to support the calculation and application of awarded cash amounts, the program is open to the perception of potential inequity and abuse. Due to this lack of adequate internal controls, the cash awards component of the Awards Program is not operating effectively.

Title 5 U.S.C. Chapter 23 2301 (b) (8) states: "... (3) Equal pay should be provided for work of equal value...." With the exception of one Approving Official, none of the other officials interviewed would provide any documentation to support what additional criteria were factored into the cash allocation decision or provide support for how the amounts were calculated. In other words, there is no documentation to support the assertion that equal cash awards are given for equal value. A list of awardees and cash amounts is provided to the CPSC Awards Review Board for review but no documentation of the basis for the cash allocation is required. Without adequate support for the decisions made, the Board is hampered in its ability to provide adequate oversight to the program.

**Recommendation**

We recommend that the Office of Human Resources Management ensure that each organization develop written policies and procedures related to the process of allocating cash awards within the organization, including all criteria used in the decision and how amounts are calculated. Documentation should be available for review by the CPSC Awards Review Board to ensure the approach is consistently applied from year to year.

We appreciate the cooperation and courtesies that CPSC personnel extended to us during this audit.

Sincerely,



# Appendices

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## Appendix A

### Background

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The Consumer Product Safety Commission was created in 1972 as an Independent Federal Regulatory Agency, whose mission is to protect the public from unreasonable risks of serious injury or death from thousands of types of consumer products under the agency's jurisdiction. CPSC has jurisdiction over more than 15,000 kinds of consumer products. CPSC recalls products that present a significant risk to consumers either because the product may be defective or violates a mandatory standard issued by CPSC.

CPSC is headed by five Commissioners, one of which serves as Chairman of the Commission, who are assisted by an Executive Director and various other executive officials, including a Chief Information Officer (Director of Technology Services), and a Chief Financial Officer (Director of Financial Management, Planning, and Evaluation). CPSC, with approximately 500 employees, is headquartered in Bethesda, Maryland and has laboratories in Rockville, Maryland, as well as about 100 investigators, compliance officers, and consumer information specialists spread throughout the country.

CPSC's Performance and Incentive Awards and Within-Grade Increase Program (Awards Program) is regulated by the Office of Personnel Management (OPM). The program dates back to 1983 when the Pendleton Act or Civil Service Act was enacted. The Act established a merit system to end favoritism and required promotion by merit competition.

The purpose of the Awards program is to recognize outstanding performance by employees and to encourage increased productivity and efficiency in agency operations. It provides a way to recognize excellent performance, exceptional achievement, constructive ideas, and suggestions that conserve work time or increase program effectiveness.

## Appendix B

### Objectives, Scope, Methodology, and Criteria

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#### Objectives

The objectives of our audit were to assess CPSC's Awards Program compliance with laws and regulations and to determine the effectiveness of the program at meeting its stated goals.

#### Scope

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provided a reasonable basis for our findings and conclusions based on our audit objectives. Our performance audit was not designed to, and we did not, perform a financial audit of the amounts obligated or expended by CPSC.

We conducted our fieldwork at the CPSC Headquarters in Bethesda, Maryland between December 2012 and July 2013. The audit included examination of approximately 320 awards from 63 CPSC organizations made during fiscal year 2011.

This performance audit did not constitute an audit of financial statements in accordance with Government Auditing Standards. WuthumSmith+Brown was not engaged to, and did not, render an opinion on CPSC's internal controls over financial reporting or over financial management systems (for purposes of OMB's Circular No. A-127, Financial Management Systems). WS+B cautions that projecting the results of our evaluation to future periods is subject to the risks that controls may become inadequate because of changes in conditions or because compliance with controls may deteriorate.

#### Methodology

To accomplish our audit objectives, we obtained an understanding of CPSC's Awards Program and the policies, procedures, and other regulatory guidance (see Appendix B) implemented by CPSC to ensure the program functions as intended. We conducted interviews of individuals responsible for program oversight and others responsible for various phases of the performance evaluation process, including award nomination, employee evaluation, review of documentation and reasonableness of awards ratings, and approval of cash awards recommended.

A performance audit includes gaining an understanding of internal controls over compliance with significant laws, regulations, and other requirements considered significant to the audit objectives, and testing the effectiveness of those controls. From approximately 320 awards across 63 CPSC organizations, a random sample of 52 awards from 34 organizations was selected for testing. We evaluated those controls accordingly to determine their operating effectiveness.

**Appendix B (cont.)**

**Objectives, Scope, Methodology, and Criteria**

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**Criteria**

We used the following criteria to accomplish our audit:

- United States Code, Title 5, Chapter 43, Performance Appraisal.
- United States Code, Title 5, Chapter 45, Incentive Awards.
- United States Code, Title 5, Chapter 54, Merit Pay and Cash Awards, Section 5403.
- United States Code, Title 5, Chapter 53, Pay Rates and Systems.
- CPSC 1024.1, Employee Evaluation and Recognition, Performance and Incentive Awards Programs and Within-Grade Increases
- CPSC 0330.3, Delegation of Authority, Honor and Cash Awards.
- Record of Commission Actions, October 3, 1984.
- CPSC 1022.3, Performance Management and Recognition System.
- CPSC 1025.1, Merit Promotion Plan.
- Federal Personnel Manual, Chapter 451, Incentive Awards.
- Federal Personnel Manual, Chapter 531, Pay under the General Schedule.

## Appendix C

### Acronyms and Abbreviations

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CPSC	Consumer Product Safety Commission
GS	General Schedule
OIG	Office of Inspector General
OPM	Office of Personnel Management
QSI	Quality Step Increase

**Appendix D**

**Consumer Product Safety Commission Response**

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U.S. CONSUMER PRODUCT SAFETY COMMISSION  
4330 EAST WEST HIGHWAY  
BETHESDA, MD 20814

April 8, 2014

Ms. Nancy Davis  
WithumSmith+Brown, PC  
8403 Colesville Rd. Ste. 340  
Silver Spring, MD 20910

Dear Ms. Davis:

This serves as management's response to the draft audit report of the Performance and Incentive Awards & Within-Grade Increases Program.

CPSC's current awards policy allows for maximum flexibility to ensure that organizational needs can be taken into account and that budget considerations can be addressed regardless of the availability of funds in any given fiscal year. Cash awards are given in accordance with the criteria outlined in the directive with performance awards directly linked to annual appraisals. Each award recommendation has a two-level management review and is approved by the CPSC Awards Review Board. The Awards Review Board provides the oversight to ensure that each organization is applying the criteria for all of their monetary award nominations in a fair and consistent manner and free from abuse or perceived favoritism.

Thank you for your work on this review. If you have any questions, please let me know.

Sincerely,

**dsimpson**  
**@cpsc.gov**

Digitally signed by  
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Donna Simpson  
Director  
Office of Human Resources Management