



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

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Date: March 15, 2013

TO : Chairman Inez M. Tenenbaum
Commissioner Robert S. Adler
Commissioner Nancy A. Nord

FROM : Christopher W. Dentel
Inspector General

SUBJECT: Improper Payments Elimination and Recovery Act (IPERA) Review

IPERA (Public Law 111-204) was enacted on July 22, 2010, and the Office of Management and Budget (OMB) issued implementing guidance on April 14, 2011—OMB Memorandum M-11-16. M-11-16 requires that Inspectors General review annually their agency's improper payment reporting in their agency's Performance and Accountability Report (PAR).

In 2011, the CPSC acknowledged not being in compliance with IPERA. The agency did not conduct an initial estimate of improper payments or a formal program risk assessment. The PAR did not include any information regarding the agency's efforts to recapture improper payments. The CPSC indicated in their 2011 PAR that in 2012 they planned to refine the risk assessment criteria such that a, ". . . gross estimate is included and to be more substantially compliant with OMB's guidance and IPERA."

To assess agency compliance with IPERA for fiscal year 2012, the CPSC OIG retained the services of Withum, Smith & Brown (WS+B) an independent certified public accounting firm. Under a contract monitored by the Office of Inspector General, WS+B, issued an audit report regarding the CPSC's compliance with the Improper Payment Elimination and Recovery Act (IPERA) of 2010, using P.L. 111-204 and OMB Memorandum M-11-16. The contract required that the audit be performed in accordance with generally accepted government auditing standards.

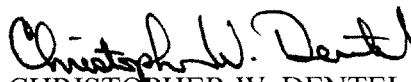
In connection with the contract, we reviewed WS&B's report and related documentation and inquired of its representatives. Our review, as differentiated from an audit in accordance with generally accepted government auditing standards, was not intended to enable us to express, and

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we do not express, an opinion on the matters contained in the report. WS&B is responsible for the attached auditor's report. However, our review disclosed no instances where WS&B did not comply, in all material respects, with U.S. generally accepted government auditing standards.

WS+B concluded that the CPSC is in compliance with IPERA. They found that the CPSC had taken several steps to identify risk and establish a systematic method to estimate improper payments. However, they also identified certain areas where they believe that the CPSC could improve its process of estimating improper payments and better comply with OMB guidance. These findings and recommendations are described in the attached report.

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


CHRISTOPHER W. DENTEL
Inspector General

Attached: Audit Report



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

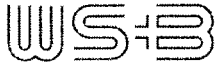
U.S. CONSUMER PRODUCT SAFETY COMMISSION

**Performance Audit of
Compliance With Improper Payment Elimination and Recovery Act**

March 13, 2013

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March 13, 2013

Ms. Inez Moore Tenenbaum
Chairman, Consumer Product Safety Commission
4330 East West Highway
Bethesda, Maryland 20814

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 compliance with the Improper Payment Elimination and Recovery Act (IPERA) of 2010, using P.L. 111-204 and the Office of Management and Budget (OMB) Memorandum M-11-16. IPERA was enacted on July 22, 2010 by President Obama. IPERA amended the Improper Payments Information Act (IPIA) of 2002. Despite IPIA's attempt to reduce improper payments agencies reported an estimated \$125 billion in improper payments for Fiscal Year 2010.

The guidance is to assist agencies with implementing and understanding the new laws aimed at reducing improper payments. There several steps an agency is required to perform in order to comply with IPERA. Each agency is required to perform several progressing steps determined by the level of their improper payments.

This report presents the results of our work conducted to address the performance audit objectives as specified by the OIG. Our audit objectives were 1) to evaluate CPSC's IPERA activities through inquires and review of documents and accompanying records; 2) to assess the information gathered to determine if CPSC is in compliance with IPERA; and 3) to create a roadmap CPSC can follow improve its processes.

CPSC has aggressively begun implementing a structured risk assessment process associated with improper payments. CPSC has taken several key steps, including the creation of the risk assessment and the adoption of the assessment. The risk assessment has assisted CPSC in identifying activities which could result in improper payments. CPSC has taken the next step in instituting a systematic method of reviewing all programs susceptible to significant improper payments.

As a result of these and other activities, we have concluded that CPSC is in compliance with IPERA. CPSC has taken several steps as far as identifying risk and establishing a systematic method to estimate the improper payments. However, we identified certain areas where we believe CPSC could improve its process of estimating improper payments, which we have described in the Recommendations section of this report.

Our work was performed during the period December 2012 to March 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.

CPSC agreed with our observations and recommendation and plans to take corrective actions during its next IPERA assessment. Management's complete response to our report is in Appendix D.

OBSERVATIONS

Introduction

The Improper Payments Elimination and Recovery Act of 2010 (IPERA), which amends the Improper Payments Information Act of 2002 (IPIA) requires Federal agencies to review programs and activities susceptible to significant improper payments, perform additional steps based on their risk assessments, and report certain information relating to improper payments in their annual financial statement. The Office of Management and Budget (OMB) Memorandum 11-16, implements IPERA and provides guidance step by step on how agencies are to comply with IPERA.

OMB's guidance is broken down into a multiple step process that agencies are required to follow. Each step builds upon the previous step depending on the outcome of that step. As the steps progress, the agencies are required to report additional information. The key factor which will determine how many steps the agency is required to perform and information to include is based on the agency's estimated improper payments. The four steps are designed to identify and reduce programs and activities that are susceptible to significant improper payments within each agency.

The four steps agencies are required to do:

- Step 1 – Review all programs and activities and identify those that are susceptible to significant improper payments.
- Step 2 – Obtain a statistically valid estimate of the annual amount of improper payments in programs and activities (unless otherwise noted in this guidance) for those programs that are identified as susceptible to significant improper payments.
- Step 3 – Implement a plan to reduce improper payments
- Step 4 – Report estimates of the annual amount of improper payments in programs and activities and progress in reducing them.

OMB Memo 11-16 defines an improper payment as any payment that should not have been made or that was made in an incorrect amount under statutory, contractual, administrative, or other legally applicable requirements. Incorrect amounts are overpayments or underpayments that are made to eligible recipients (including inappropriate denials of payment or service, any payment that does not account for credit for applicable discounts, payments that are for the incorrect amount, and duplicate payments). An improper payment also includes any payment that was made to an ineligible recipient or for an ineligible good or service, or payments for goods or services not received (except for such payments authorized by law). In addition, OMB Memo 11-16 states when an agency's review is unable to discern whether a payment was proper as a result of insufficient or lack of documentation, this payment must also be considered an improper payment.

The term "payment" in this guidance means any payment or transfer of Federal funds (including a commitment for future payment, such as cash, securities, loans, loan guarantees, and insurance subsidies) to any non-Federal person or entity that is made by a Federal agency, a Federal contractor, a Federal grantee, or a governmental or other organization administering a Federal program or activity.

In limited cases, and with prior approval from OMB, an agency may implement a measurement approach that excludes improper payments that have been subsequently corrected and recovered from the annual total reported in its Performance and Accountability Report (PAR) or Annual Financial Report (AFR). If an agency receives such approval from OMB, it should report this in its annual PAR or AFR.

In FY 2011, CPSC had not calculated a gross estimate of improper payments, and the Inspector General reported and CPSC acknowledged that it was not in compliance with IPERA. CPSC indicated that for FY 2012 it would refine its risk assessment and produce a gross estimate to be more substantially in compliance with OMB's guidance and IPERA.

For FY 2012, CPSC made significant enhancements in its improper payment process after consultation with OMB and updated its improper payments procedures to include a gross estimate of improper

payments based on a statistically valid sample. CPSC utilized FY 2011 data and identified a universe of \$44.7 million of activity subject to review consisting of all contract activity, blanket purchase agreement calls and purchase orders greater than or equal to \$2,500, and purchase card transactions. A total of 273 transactions were statistically selected by CPSC and reviewed.

CPSC reported in their FY 2012 Performance and Accountability Report that for FY 2012 no improper payments were found in the sample resulting in an estimate of \$0 improper payments in the population. CPSC's results are summarized as follows:

Results	Frequency in the Sample	Sum of Amount of Transactions in the Sample
Proper Payment	237	(\$7,032,779.00)
No Invoice or Bank Statement	36	(\$177,058.52)
Total	273	(\$7,209,837.52)

CPSC' gross estimate testing methodology was not all inclusive of the improper payments definition described by OMB's guidance. CPSC's plan indicated sampled payments will be deemed improper if they meet any of the following risk criteria:

- The payment amount was disputed by the vendor as an underpayment.
- The payment amount was refunded to CPSC.
- The payment was made to a vendor no longer in operation.
- The payment was made to a vendor on the "Do Not Pay" list.
- The payment was a duplicate of a payment already made.
- The payment was for anything for which the government is exempt from having to pay (e.g. sales tax).

However, OMB's definition of improper payments also indicates that when an agency's review is unable to discern whether a payment was proper as a result of insufficient or lack of documentation, this payment must also be considered improper. CPSC identified a total of 36 transactions that did not have a supporting invoice or purchase card statement. In evaluation of results of testing, CPSC did not consider missing documents to be an error, and thus did not calculate the gross estimate in accordance with OMB definitions. Agencies may use a different method for reporting improper payments that result from documentation issues with OMB approval. It does not appear that OMB approved this alternate methodology, and this alternate methodology was not disclosed in the PAR.

We also noted that CPSC's testing of purchase card transactions did not include testing of source documentation (e.g. receipts, invoices) but relied primarily on the purchase card statements and the approval of those statements. However, the purchase card statement alone is not sufficient information to determine if the payment was proper. Additionally, we noted there were eight purchase-card statements that CPSC was unable to locate but that were not considered as improper payments.

Additionally, we identified one overpayment for \$1.2 million in CPSC's sample, which CPSC did not identify and classify as an overpayment. An overpayment was made to a vendor who had subsequently refunded the payment to CPSC, but this amount was not classified as an improper payment by CPSC, although CPSC's policy was to classify vendor refunds as improper payments. This treatment does not comply with OMB's guidelines unless CPSC obtained prior OMB approval to utilize an alternate measurement approach that excludes improper payments that have been subsequently corrected and recovered.

Based on our assessment, we noted that CPSC had completed step 1, identifying activities and programs that are susceptible significant improper payments. However, CPSC had issues with identifying improper

payments and did not review source documentation for purchase card transactions to determine whether the payment was proper. Additionally payments not supported by source documentation were not properly classified as improper payments.

OMB Circular A-123, Appendix C (Revised 2011), Part I. A) 2) states:

An improper payment is any payment that should not have been made or that was made in an incorrect amount under statutory, contractual, administrative, or other legally applicable requirements. Incorrect amounts are overpayments or underpayments that are made to eligible recipients (including inappropriate denials of payment or service, any payment that does not account for credit for applicable discounts, payments that are for the incorrect amount, and duplicate payments). An improper payment also includes any payment that was made to an ineligible recipient or for an ineligible good or service, or payments for goods or services not received (except for such payments authorized by law). In addition, when an agency's review is unable to discern whether a payment was proper as a result of insufficient or lack of documentation, this payment must also be considered an improper payment.

OMB Circular A-123, Appendix C Part I. A) 2) also states:

In limited cases, and with prior approval from OMB, an agency may implement a measurement approach that excludes improper payments that have been subsequently corrected and recovered from the annual total reported in its Performance and Accountability Report (PAR) or Annual Financial Report (AFR). If an agency receives such approval from OMB, it should report this in its annual PAR or AFR.

There were several factors that we believe caused the discrepancies we noted. CPSC changed their accounting service provider and when the documents were transferred to the new provider several boxes of documents were not able to be located, resulting in inadequate supporting documentation. Although CPSC consulted with OMB on their improper payments assessment approach, CPSC's testing methodology was not robust enough to identify and classify all improper payments based on OMB's definitions.

For purchase card transactions, because CPSC's process is designed so that individual cardholders maintain the supporting documentation for their purchases, management did not view it as cost-beneficial to expend the resources to gather all the supporting documents from the individual cardholders in the sample. CPSC also, deemed the credit card statements as adequate support and determined them to be proper payments.

Although CPSC has performed its risk assessment and reported its gross estimate in accordance with IPERA, we believe had CPSC more closely followed OMB Guidance and definitions the amount of improper payments reported would have been different. Therefore, although CPSC is in compliance with IPERA, further improvements can be made to the process to further enhance its improper payment evaluation and reporting.

As a result we concluded that CPSC should have classified the payments that did not have original source documentation or any supporting documentation as improper payments. CPSC did not follow or agree to the guidance provided by OMB. Additionally, CPSC overlooked one payment in its sample that was sent to a vendor in an incorrect amount.

Recommendation

In order to enhance their gross estimate calculation and report improper payments on their PAR we recommend that CPSC staff revise their policy for determining improper payments:

- A. Enhance their definition of improper payments to include any inadequately supported payments as improper.
- B. Obtain the original source documentation as support and if CPSC cannot obtain the original source document, CPSC should classify these as an improper payment. CPSC should seek OMB approval to utilize an alternate reporting method for improper payments resulting from insufficient documentation.
- C. Ensure that staff performing the testing is adequately trained in recognizing overpayments indicated by vendor refunds.

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

Sincerely,

WithumSmith+Brown, PC

Appendices

Appendix A

Background

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 Gaithersburg, Maryland, as well as about 100 investigators, compliance officers, and consumer information specialists spread throughout the country.

Improper Payments and Elimination and Recovery Act of 2010 requires, that "each fiscal year, the Inspector General of each agency shall determine whether the agency is in compliance and submit a report on that determination."

CPSC's mission to protect the public from unreasonable risks or serious injury or death from thousands of types of consumer products is considered one program for the purposes of IPERA. CPSC used 2011's expenditures as a sample base totaling \$44.7 million.

Appendix B

Objectives, Scope, Methodology, and Criteria

Objectives

The objective of our audit was to perform a rigorous evaluation of CPSC's IPERA processes in order to determine whether or not CPSC was in compliance with IPERA and to make recommendations to improve their process.

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. We conducted our fieldwork at the CPSC Headquarters in Bethesda, Maryland between December 2012 and March 2013.

Our performance audit was not designed to, and we did not, perform a financial audit of the amounts obligated or expended by CPSC.

This performance audit did not constitute an audit of financial statements in accordance with Government Auditing Standards. WS+B 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 the OMB Memorandum 11-16, which requires the Inspector General of CPSC to conduct reviews and audits to assess CPSC's compliance with IPERA to determine what CPSC is reporting on their PAR is accurate. We conducted interviews with CPSC officials from the Office of Financial Management and performed a walkthrough of the relevant processes. We also reviewed relevant documentation including selected sample items that CPSC tested for its IPERA assessment.

A performance audit includes gaining an understanding of internal controls considered significant to the audit objectives, testing controls, and testing compliance with significant laws, regulations, and other requirements. For this assignment, CPSC's Management and disbursement policies controls were considered the specific internal controls to ensure the process works effectively. We evaluated those controls accordingly to determine how well they contribute to carrying out the IPERA compliance functions.

Appendix B (cont.)

Objectives, Scope, Methodology, and Criteria

Criteria

We used the following criteria to accomplish our audit:

- OMB Circular A-123, "Management Accountability and Control"
- Improper Payments Elimination and Recovery Act of 2010
- OMB Memo 11-04 "Increasing Efforts to Recapture Improper Payments by Intensifying and Expanding Payment Recapture Audits" (November 2010)
- OMB Memo 11-16 "Issuance of Revised Parts I and II to Appendix C of OMB Circular A-123" (April 2011)

Appendix C

Acronyms and Abbreviations

AFR	Annual Financial Report
CPSC	Consumer Product Safety Commission
IPERA	Improper Payment Elimination and Recovery Act of 2010
IPIA	Improper Payments Information Act of 2002
GAO	Government Accountability Office
OIG	Office of Inspector General
OMB	Office of Management and Budget
PAR	Performance and Accountability Report
P.L.	Public Law

Consumer Product Safety Commission Response



UNITED STATES
CONSUMER PRODUCT SAFETY COMMISSION
4330 EAST WEST HIGHWAY
BETHESDA, MD 20814

WithumSmith+Brown, PC
Certified Public Accountants and Consultants
8403 Colesville Road, Suite #340
Silver Spring, Maryland 20910

March 12, 2013

Dear WithumSmith+Brown,

CPSC Management concurs with your report's overall conclusion that "CPSC is in compliance with IPERA and that CPSC has taken several steps as far as identifying risk and establishing a systematic method to estimate the improper payments." Management further concurs that the gross estimate can be improved upon in subsequent years by taking your audit recommendations into consideration.

During FY2012, CPSC Management did make significant enhancements to the IPERA processes, including performing the risk assessment, identifying a universe of potential improper payments, utilizing a statistically valid sample, obtaining all available supporting documentation and conducting testing to determine if the samples met any of the risk criteria. For 237 of the samples tested, CPSC determined that all payments were deemed to be proper payments. Although supporting documentation for 36 samples could not be located, based on the results of the testing for the other 237 proper payment samples, CPSC Management had no reason to believe that supporting documentation was not present at the time that these 36 payments were issued or that there was insufficient or a lack of documentation for these transactions at the time the transactions were initially processed. The issue was that the supporting documentation was not retrieved due to a change in service providers when boxes of documents could not be located. CPSC Management has enhanced their requirements for document storage and retrieval through their new service provider to ensure that document retrieval will not be an issue in the future.

In reference to the 200 purchase card transactions, supporting documentation was reviewed for 19 of the samples that were deemed to be proper payments. An additional 35 samples of the purchase card transactions resulted from charges from the Centrally Billed Account (CBA) for travel expenses. We did not obtain supporting documentation for the CBA charges, since they are for travel related expenses (mostly plane tickets) and the travelers are not required to forward a copy of the tickets once used. CPSC has two compensating controls over the CBA Account: (1) travel authorizations are completed and approved by the supervisor of the traveler prior to charging the CBA account and (2) beginning FY2012 the CBA Account monthly bank statement is reviewed against the GovTrip travel authorization by the Agency Program Coordinator (APC) prior to payment. The remaining purchase card transactions were reviewed from the US Bank cardholder statements of account, which show each transaction detail. A compensating control also exists for these purchase card transactions, as each cardholder statement had supervisory review, indicating that the supervisor has checked to ensure that payments charged to the account

Appendix D

Consumer Product Safety Commission Response

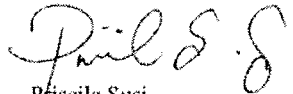
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are accurate and proper. CPSC will obtain all purchase card statements and supporting documentation for purchase card transactions for all samples in subsequent IPERA reviews.

The one sample paid invoice that was determined to be improper (vendor refund) was not accurately identified by CPSC staff; for future IPERA reviews any CPSC staff member who is assigned to conduct these reviews will be trained to identify vendor refunds and to classify these as improper payments.

Thank you for your helpful suggestions on this collaborative audit engagement. If you have questions or comments, please contact CPSC's Internal Controls lead, Barbara Denny, at (301) 504-7246, or bdenny@cpsc.gov.

Sincerely,



Priscila Susi
Director, Financial Services