



U.S. ELECTION ASSISTANCE COMMISSION
OFFICE OF INSPECTOR GENERAL
1225 New York Ave. NW - Suite 1100
Washington, DC 20005

April 28, 2008

Christopher W. Dentel
Inspector General
Office of Inspector General
Consumer Product Safety Commission
4330 East-West Highway Room 419
Bethesda, Maryland 20814

Dear Mr. Dentel:

Enclosed is our report on the external quality control review of the Office of Inspector General, U.S. Consumer Product Safety Commission audit function. We conducted this review in accordance with the President's Council on Integrity and Efficiency guidelines and discussed the review with you on April 4, 2008.

You provided comments on the draft report's findings and recommendations and described actions taken or planned that satisfy the intent of the report recommendations. We considered the comments when preparing the final report and no further comments are required. Your response to the draft report is included as Appendix B; excerpts are incorporated into the relevant sections of the report.

We appreciate the professionalism and cooperation extended by your staff during our review. If you have any questions, please contact me at (202) 566-3125.

Sincerely,

A handwritten signature in blue ink that reads "Curtis W. Crider".

Curtis W. Crider
Inspector General

Enclosure

UNMODIFIED OPINION REPORT
U.S. CONSUMER PRODUCT SAFETY COMMISSION
OFFICE OF INSPECTOR GENERAL

We have reviewed the system of quality control for the audit function of the Office of Inspector General (OIG), U.S. Consumer Product Safety Commission (CPSC) in effect for the year ended September 30, 2007. A system of quality control encompasses an OIG's organizational structure and the policies adopted and procedures established to provide it with reasonable assurance of conforming with generally accepted government auditing standards (GAGAS). The elements of quality control are described in GAGAS, promulgated by the Comptroller General of the United States. The design of the system, and compliance with it in all material respects, are the responsibility of the CPSC OIG. Our objective was to determine whether the internal quality control system was adequate as designed and complied with to provide reasonable assurance that applicable auditing standards, policies, and procedures were met. Our responsibility is to express an opinion on the design of the system and the CPSC OIG's compliance with the system based on our review.

Our review was conducted in accordance with the guidelines established by the President's Council on Integrity and Efficiency and the Executive Council on Integrity and Efficiency. In performing our review, we obtained an understanding of the system of quality control for the CPSC OIG. In addition, we tested compliance with the CPSC OIG's quality control policies and procedures to the extent we considered appropriate. These tests included the application of the CPSC OIG's policies and procedures on selected audits. Because our review was based on selective tests, it would not necessarily disclose all weaknesses in the system of quality control or all instances of lack of compliance with it. Nevertheless, we believe that the procedures we performed provide a reasonable basis for our opinion.

Because there are inherent limitations in the effectiveness of any system of quality control, departures from the system may occur and not be detected. Also, projection of any evaluation of a system of quality control to future periods is subject to risk that the system of quality control may become inadequate because of changes in conditions, or because the degree of compliance with the policies or procedures may deteriorate. Our objective, scope, and methodology are provided in Appendix A.

In our opinion, the system of quality control for the audit function of the CPSC OIG in effect for the year ended September 30, 2007, has been designed to meet the requirements of the quality control standards established by the Comptroller General of the United States for a Federal Government audit organization and was complied with during the year ended to provide the CPSC OIG with reasonable assurance of conforming with applicable auditing standards, policies, and procedures.

We noted, however, conditions that warrant your attention though they did not impact our opinion. These matters are described in the Findings and Recommendations that follow.

FINDINGS AND RECOMMENDATIONS

GAGAS requires that audit documentation be appropriately detailed to provide a clear understanding of its purpose and source and the conclusions reached. GAGAS further requires that auditors: be free from impairments to their independence and consider risks due to fraud. CPSC OIG's policies and procedures address the importance of audit documentation and provide guidance for preparation, which are important to ensure compliance with GAGAS. We reviewed both audits issued during fiscal year 2007 and found one or more areas in both audits where documentation was insufficient to support facts and conclusions presented in the audit reports. In addition we identified financial audit reporting deficiencies. Because of the small size of the CPSC OIG, we are making a general recommendation that the CPSC OIG use outside parties to perform the referencing (quality assurance function) on each of its audits.

Finding 1: Audit Documentation

GAGAS 4.03 requires that for financial audits that the work be adequately planned, that a sufficient understanding of internal control be obtained, and that sufficient competent evidentiary matter be obtained to afford a reasonable basis for the opinion regarding the financial statements under audit.

During our review of the Fiscal Year 2006 financial statement audit, we noted that improvement is needed in the areas of documentation of audit planning, materiality determinations, risk assessments, assessment and testing of internal controls, sampling, substantive testing, compliance testing, and reporting.

Recommendation: Ensure that CPSC OIG staff understands the importance of preparing and retaining audit documentation to support the auditor's significant judgments and conclusions.

Recommendation: Ensure that CPSC OIG follow the requirements for the performance of the audit and the documentation requirements of the *GAO/PCIE Financial Audit Manual* when conducting the financial audit.

Recommendation: The CPSC OIG should consider either contracting the annual financial audit out to an Independent Public Accounting firm or hiring sufficient personnel to perform the audit.

Views of CPSC OIG

CPSC OIG indicated that a new auditor was being hired with substantial federal financial auditing experience. In addition the Inspector general will re-emphasize the importance of audit documentation in general and following the performance and documentation requirements of the *GAO/PCIE Financial Audit Manual* when conducting the financial statement audit.

EAC OIG Evaluation of CPSC OIG's Views

Management actions planned are responsive to the recommendations.

Finding 2: Financial Audit Report

AU § 508.08 requires that the auditor's report be signed and dated. Furthermore, if comparative financial information is presented in the report, the report must be modified to express an opinion on the comparative financial data unless the data is not audited.

The auditor's report for the Fiscal Year 2006 financial statement audit was not signed, not dated, and was not modified to provide an opinion on the comparative data presented in the financial statements. The comparative data had been previously audited by the CPSC OIG. When the CPSC OIG provided the auditor's report to the CPSC, the report included a transmittal letter that was dated and signed by the Inspector General. However, when the auditor's report was published in the CPSC annual performance and accountability report the transmittal letter was not published.

Recommendation: The CPSC OIG should modify its financial audit reports to include the required information.

Views of CPSC OIG

The CPSC OIG indicated that the next financial report will include the required information.

EAC OIG Evaluation of CPSC OIG's Views

Management actions planned are responsive to the recommendation.

Finding 3: Documentation of Auditor Independence

GAGAS 3.03 states, "In all matters relating to the audit work, the audit organization and the individual auditor, whether government or public, should be free both in fact and appearance from personal, external, and organizational impairments to independence." The CPSC OIG requires that each auditor prepare an independence certification on an annual basis certifying that they are not aware of any conflicts or situations that might impair their ability to audit or conduct other CPSC OIG activities independently.

We found no independence certificates for fiscal year 2007. CPSC OIG management said that the independence certifications had been completed in 2007 but when the 2008 certifications were received, they threw out the 2007 certifications.

Recommendation: Ensure that independence certifications are properly maintained.

Views of CPSC OIG

The CPSC OIG indicated that the certifications of independence will be maintained for three years and stored in the auditor's personnel file.

EAC OIG Evaluation of CPSC OIG's Views

Management actions planned are responsive to the recommendation.

Finding 4: Documentation of Fraud Risks

For financial audits, GAGAS 4.18 states, “AICPA [American Institute of Certified Public Accountants] standards and GAGAS require auditors to assess the risk of material misstatements of financial statement amounts or other financial data significant to the audit objectives due to fraud and to consider that assessment in designing the audit procedures to be performed.” For performance audits, GAGAS 7.22 states, “Auditors should also be aware that assessing the risk of fraud is an ongoing process throughout the audit and relates not only to planning the audit but also to evaluating evidence obtained during the audit.”

During our review of both audits, we noted that the consideration of fraud during the planning and during the conduct of the audit was not documented. Discussion with the auditor indicated that fraud was considered in the planning of the audits and was a focus throughout both audits.

Recommendation: Ensure that consideration of fraud during audit planning and conduct of the audit is documented in the audit working papers.

Views of CPSC OIG

The Inspector General will re-emphasize the importance of audit documentation, including the documentation of the consideration of fraud during the audit planning and conduct of the audit.

EAC OIG Evaluation of CPSC OIG’s Views

Management actions planned are responsive to the recommendation.

Finding 5: Audit Report Cross-Referencing

GAGAS 7.66 for performance audits and 4.22 for financial audits provides that an experienced auditor should be able to ascertain from the audit documentation the evidence that supports the auditor’s significant judgments and conclusions. In addition, GAGAS 7.68 states, “Audit documentation should be appropriately detailed to provide a clear understanding of its purpose and source and the conclusions the auditors reached, and it should be appropriately organized to provide a clear link to the findings, conclusions, and recommendations contained in the audit report.”

For both of the audit reports we reviewed, the references provided to support statements were difficult to follow, the working papers referenced either did not support or only partially supported the statements in the reports, and several sections of the audits were not cross-referenced to supporting audit documentation. As a result, we had to discuss the audit documentation in detail with the audit team to ascertain whether reported facts and conclusions were substantiated.

Recommendation: Ensure that staff adequately indexes the reports to the supporting documentation.

Views of CPSC OIG

The CPSC OIG indicated that thorough indexing of audit reports to the supporting documentation will be stressed. Report cross indexing will be an area of special interest during the revision of the CPSC OIG's system of quality control. The CPSC OIG is considering either contracting out the referencing function or entering into a MOU with another OIG to accomplish referencing.

EAC OIG Evaluation of CPSC OIG's Views

Management actions planned are responsive to the recommendation.



Curtis W. Crider
Inspector General
April 28, 2008

Objective, Scope and Methodology

Objective

We conducted an external peer review of the Consumer Product Safety Commission (CPSC), Office of Inspector General (OIG). Our objective was to determine whether the CPSC OIG's internal quality control system was adequate as designed, and whether it provided reasonable assurance that applicable auditing standards, policies, and procedures were met.

Scope

These tests included a review of one of one performance audit reports issued during the October 1, 2006 through September 30, 2007 semiannual reporting periods. In addition, we reviewed the financial statement audit covering the FY 2006 financial statements for the Consumer Product Safety Commission. We performed on-site fieldwork at the CPSC OIG Headquarters located in Bethesda, Maryland.

Methodology

We conducted our review in conformity with the standards and guidelines established by the PCIE and ECIE. We tested the compliance with the CPSC OIG's system of quality control to the extent we considered necessary. We used the Guide for Conducting External Peer Reviews of the Audit Operations of the Inspector General (Guide), April 2005.

We tested compliance with CPSC OIG's system of quality control by reviewing one performance audit report and one financial report.

1. Audit of Service Contracting issued September 24, 2007
2. Consumer Product Safety Commission's Fiscal Year 2006 Financial Statements issued November 8, 2006

Where appropriate, we reviewed audit documentation, training records, and conducted interviews with staff to determine whether established policies, procedures, and applicable standards were followed.



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

Christopher W. Dentel
Inspector General

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Date: April 22, 2008

TO : EAC IG, Curtis W. Crider
1225 New York Av. NW – Suite 100
Washington, DC 20005

FROM : Christopher W. Dentel
Inspector General

SUBJECT: Peer Review

I have reviewed the peer review report for 2007 prepared by your office. My responses follow:

Finding 1: Audit Documentation:

Recommendation: Ensure that CPSC OIG staff understands the importance of preparing and retaining audit documentation to support the auditor's significant judgments and conclusions.

Recommendation: Ensure that CPSC OIG follow the requirements for the performance of the audit and the documentation requirements of the GAO/PCIE Financial Audit Manual when conducting the financial audit.

Recommendation: The CPSC OIG should consider either contracting the annual financial audit out to an Independent Public Accounting firm or hiring sufficient personnel to perform the audit.

Response: Since the peer review was accomplished, one new auditor has been hired and a second is in the process of being hired. The new auditor is a former Supervising Senior Associate with KPMG, LLP. Her primary area of responsibility with KPMG was conducting financial statement audits of federal agencies. In conducting these audits she followed the requirements of the GAO/PCIE Financial Audit Manual. KPMG does not utilize automated work papers, instead relying on manually created work papers. Thus, the new auditor has experience in manually preparing audit documentation; the method of documentation utilized by the CPSC OIG. The Inspector General will re-emphasize the importance of audit documentation in general and the following of the performance and documentation requirements of the GAO/PCIE Financial Audit Manual when conducting the financial statements audit.

CPSC Hotline: 1-800-638-CPSC(2772) | CPSC's Web Site: <http://www.cpsc.gov>

Finding 2: Financial Audit Report:

Recommendation: The CPSC OIG should modify its financial audit reports to include the required information.

Response: The next financial audit report that is issued will include the required information. Beginning on 28 Apr 08, this office will begin revising the audit plan for the financial statement audit. These revisions will include ensuring that the required information is included in the final report. It is anticipated that the revised audit plan will be completed by 30 May 08.

Finding 3: Documentation of Auditor Independence:

Recommendation: Ensure that independent certifications are properly maintained

Response: Certifications of independence will be maintained for three years and stored in each auditor's personnel information file. The completion, and filing, of the independent certification has been made part of the in-processing process for new OIG staff. The CPSC OIG Audit Manual will be modified to reflect that certification should be updated and filed on a Fiscal Year cycle. It is anticipated that modifications of the Audit Manual will be completed by 27 Jun 08.

Finding 4: Documentation of Fraud Risks


Recommendation: Ensure that consideration of fraud during audit planning and conduct of the audit is documented in the audit working papers.

Response: The Inspector General will re-emphasize the importance of audit documentation, including the documentation of the consideration of fraud during audit planning and conduct of the audit. This will be an area of special emphasis during the revision of the audit plan to be used for the financial statement audit. The revision of this audit plan will begin on 28 Apr 08.

Finding 5: Audit Report Cross-Referencing

Recommendation: Ensure that staff adequately indexes the reports to the supporting documentation.

Response: The importance of thorough indexing of audit reports to the supporting documentation will be stressed to both new auditors. It will also be an area of special interest during the revision of the OIG's system of quality control which is scheduled to begin on 12 May 08 and projected to be completed by 13 Jun 08. At the present time, the possibility of either contracting out the referencing function or entering into a MOU with another OIG to accomplish it is being considered.


Christopher W. Dentel
Inspector General
Consumer Product Safety Commission