Office of Inspector General

Committee for Purchase From People
Who Are Blind or Severely Disabled
(U.S. AbilityOne Commission)

December 13, 2019

MEMORANDUM

FOR: Thomas D. Robinson
Chairperson
U.S. AbilityOne Commission

Tina Ballard
Executive Director

FROM: Thomas K. Lehrich
Inspector General

SUBJECT: Audit of the U.S. AbilityOne Commission's Financial Statements
For Fiscal Year 2019, Report No. 20-02

I am pleased to provide the audit report on the U.S. AbilityOne Commission's (Commission) financial statements. The Office of Inspector General (OIG) contracted with the independent certified public accounting firm, Allmond & Company, LLC (Allmond & Company), to audit the Commission's financial statements and related footnotes as of September 30, 2019, and for the year then ended.

The audit resulted in an adverse opinion due to significant departures from generally accounting principles and federal reporting requirements, including material misstatements and omissions in the Commission's financial statements and footnotes. The misstatements and omissions were material and pervasive, and included the failure to record accounts payable accrual and accurately record other accrued liabilities, which materially misstated the Commission's beginning and ending balances, and the omission of uncorrected errors in required footnotes. As a result, the outside auditors determined the Commission's financial statements were not presented fairly, in all material respect, as of September 30, 2019, nor in accordance with accounting principles generally accepted in the United States of America.

The contract required Allmond & Company to conduct the audit in accordance with generally accepted government auditing standards (GAGAS), and the Office of Management and Budget (OMB) Bulletin No. 19-03, Audit *Requirements for Federal Financial Statements*.

Allmond & Company is responsible for the attached independent auditor's report and the conclusions expressed therein. The OIG does not express opinions on the Commission's financial statements or internal control over financial reporting, or conclusions on compliance or other matters. The audit report provides an opinion on the Commission's financial statements, and communicates reporting requirements on internal control over financial reporting and compliance with laws and regulations.

As required by GAGAS, Allmond & Company's report includes two material weaknesses and two significant deficiencies related to the Commission's internal control over financial reporting. In addition, there are two findings related to noncompliance with certain provisions of applicable laws and regulations. However, the objective of Allmond & Company was not to provide an opinion on internal control over financial reporting or compliance with laws, regulations, contracts, and grant agreements applicable to the Commission.

The OIG would like to thank the Commission staff, and especially the Chief of Staff, for the assistance and cooperation. If you have any questions or need additional information, please contact me.

Enclosure: *Independent Auditor's Report September 30, 2019*

U.S. ABILITYONE COMMISSION
INDEPENDENT AUDITORS' REPORT
SEPTEMBER 30, 2019

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Independent Auditors' Report

Commission Members and Executive Director
Committee for Purchase from People Who are Blind or Severely Disabled – U.S. AbilityOne Commission

Report on the Financial Statements

We have audited the accompanying financial statements of the Committee for Purchase From People Who Are Blind or Severely Disabled - U.S. AbilityOne Commission (Commission), which comprise the balance sheet as of September 30, 2019, and the related statements of net cost, changes in net position, and budgetary resources for the year ended, and the related notes to the financial statements (hereinafter referred to as the financial statements).

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this responsibility includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on the fiscal year 2019 financial statements of the Commission based on our audit. We conducted our audit 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 Office of Management Bulletin (OMB) Bulletin No. 19-03, *Audit Requirements for Federal Financial Statements.* Those standards and OMB Bulletin No. 19-03 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risk of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion.

An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of significant accounting estimates made by management, as well as the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Basis for Adverse Opinion

We identified significant departures from generally accepted accounting principles and federal reporting requirements, including material misstatements and omissions in the Commission's financial statements and footnotes. These misstatements and omissions were material and pervasive and included the failure to record an accounts payable accrual and accurately record other accrued liabilities, which materially misstated the Commission's beginning and ending balances, and the omission or uncorrected errors in required footnotes. These matters are discussed in detail in Exhibits I and II of the audit report. As of the date of our report, these errors and omissions have not been addressed by the Commission.

Adverse Opinion

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion paragraph, the financial statements referred to above do not present fairly, in all material respects, the financial position of the Committee for Purchase From People Who Are Blind or Severely Disabled - U.S. AbilityOne Commission as of September 30, 2019, or its net costs, changes in net position, and budgetary resources for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

FY 2018 Financial Statements Audited by Other Auditors

The financial statements of the Commission as of and for the fiscal year ended September 30, 2018, were audited by another auditor, who expressed an unmodified opinion on those statements on December 1, 2018. These statements were not audited, reviewed, or compiled by us; accordingly, we do not express an opinion or any other form of assurance on them.

Required Supplementary Information

U.S. generally accepted accounting principles require that the information in the *Message from the Chairperson, Management Discussion and Analysis, and the Performance and Other Information* section of this report is presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Federal Accounting Standards Advisory Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of Commission's financial statements. However, we did not audit this information and, accordingly, we express no opinion on it.

Other Reporting Required by Government Auditing Standards

Report on Internal Control over Financial Reporting

In planning and performing our audit of the Commission's financial statements as of and for the year ended September 30, 2019, in accordance with generally accepted government auditing standards, we considered the Commission's internal control over financial reporting 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 Commission's internal control over financial reporting. Accordingly, we do not express an opinion on the Commission's internal controls over financial reporting. We limited internal control testing to those necessary to achieve the objectives described in OMB Bulletin No. 19-03. We did not test all internal control relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act of 1982 (FMFIA).

Our consideration of internal control over financial reporting was for the limited purpose as described in the paragraph above and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Exhibit I and Exhibit II, we identified certain deficiencies in internal control that we consider to be a material weaknesses and significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in their normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a 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. We consider the deficiencies described in the accompanying *Exhibit I Findings and Recommendations* to be material weaknesses (2019-01 and 2019-02).

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness yet important enough to merit the attention by those charged with governance. We consider the deficiencies described in the accompanying *Exhibit II Findings and Recommendations* to be a significant deficiency (2019-03 and 2019-04).

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Commission's fiscal year 2019 financial statements are free of material misstatements, we performed tests of Commission's compliance with certain provisions of applicable laws, regulations, contracts, and grant agreements, which noncompliance could have a direct and material effect on the determination of material amounts and disclosures in Commission's financial statements, and certain provisions of other laws specified in OMB Bulletin No. 19-03. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests of compliance as described in the preceding paragraph, disclosed two instances of noncompliance or other matters that are required to be reported herein under Government Auditing Standards or OMB Bulletin 19-03 and which are described in *Exhibit III Findings and Recommendations* (2019-05 and 2019-06).

Commission’s Response to Findings

The Commission’s responses to the findings identified in our audit are described immediately following Exhibit III. The Commission’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.

Purpose of the Other Reporting Required by Government Auditing Standards

The purpose of the communication described in the Other Reporting Required by Government Auditing Standards section is solely to describe the scope of our testing of internal control and compliance with selected provision of applicable laws, regulations, contracts, and grant agreements, and the results of that testing, and not to provide an opinion on the effectiveness of Commission's internal control or on compliance. This communication is an integral part of an audit performed in accordance with U.S. generally accepted government auditing standards in considering internal controls and compliance with laws, regulations, contracts, and grant agreements which could have a material effect on Commission’s financial statements. Accordingly, this communication is not suitable for any other purpose.

Allmond & Company, LLC

Lanham, MD
December 3, 2019

Financial Statements and Footnotes Were Not Prepared in Accordance with Generally Accepted Accounting Principles and OMB Circular A-136 (2019-01)

CONDITION

Improvements are needed over U.S. AbilityOne Commission preparation of financial statements and footnote disclosures. During our review of the U.S. AbilityOne Commission (Commission) financial statements and footnotes for the interim reporting period ended June 30, 2019, we noted the financial statements and footnotes were not consistent with financial reporting requirements, as follows:

1. The Statement of Changes in Net Position (SCNP) was not prepared as required by OMB Circular A-136.
2. A variance analysis was not prepared for the Statement of Changes in Net Position.
3. Footnotes to the financial statements were not prepared as required by OMB Circular A-136.

In addition, the Commission's financial statements and footnotes for the reporting period ended September 30, 2019, were not consistent with generally accepted accounting principles (GAAP) and/or financial reporting requirements, as follows:

4. The Statement of Financing was included as a principal financial statement in error.
5. The Classified Activities footnote and related disclosure was required per federal financial reporting requirements, but was omitted in error.
6. The Inter-Entity Costs footnote and related disclosure was required per GAAP and federal financial reporting requirements, but was omitted in error.
7. Explanations for the difference of $574 thousand between the agency's unobligated balance, end of year at 09/30/2018 and the unobligated balance from prior year budget authority, net, of the current year was required per federal financial reporting requirements and was omitted in error.
8. Undelivered Orders, Paid of $25 thousand was omitted from the Undelivered Orders at the End of the Period footnote. In addition, the balances should have been separated into federal and nonfederal amounts.
9. The Leases footnote did not include a schedule of estimated future payments for the terms of the Commission's leases. Instead the note disclosed the prior year and current year (FY 2018 and FY 2019) periods rather than for FY 2020 and beyond. In addition, the amounts reported for the Commission's lease in Crystal City for FY 2019 per the footnote ($450,000) did not agree to the lease agreement ($351,000).
10. In the Explanation of Differences between the Statement of Budgetary Resources (SBR) and the Budget of the U.S. Government footnote, the $832,539.06 difference between the amounts of Budgetary Resources per the SBR and the Budget of the U.S. Government were primarily 0attributed to rounding, with only a portion due to expired unobligated balances. However, as the amount related to expired balances, $537,880.85, made up the majority of this difference, a separate reconciling item should have been included in the table to identify and explain this

difference. In addition, the amount reported in the schedule for Net Outlays per the Budget of the U.S. Government was $8,000,000; the actual published amount for Net Outlays per the President's Budget was $9,000,000, resulting in a $1,000,000 understatement of this balance. There is also no explanation for the resulting difference in Net Outlays of $576,480.12.

11. A Commitments and Contingencies footnote was required per GAAP and federal financial reporting requirements and was omitted in error. The Commission's General Counsel reported to us that there were two probable and two reasonably possible contingent liabilities as of 09/30/2019, each with a known or estimated range of potential loss. In addition, the known and estimated amounts of probable contingent liabilities should have been recorded to the general ledger and both the probable and reasonably possible contingent liabilities should have been disclosed in the financial statement footnotes.

    The Intragovernmental and With the Public balances of Net Operating Cost in the Reconciliation of Net Cost to Net Outlay were materially misstated. The $9,603,882.20 total amount of Net Operating Cost was reported as intragovernmental in error; the amounts that should have been reported as Intragovernmental and With the Public balances are $2,182,340.99 and $7,421,541.21, respectively.

CRITERIA

Office of Management and Budget (OMB) Circular A-136, *Financial Reporting Requirements*, revised and effective on June 28, 2019, states, "Each Executive Branch entity that is required to prepare audited financial statements under the Chief Financial Officer's Act of 1990 (CFO Act), Government Management Reform Act of 1994 (GMRA), or the Accountability of Tax Dollars Act of 2002 (ATDA) must comply with Sections I, II, and IV of this Circular."

Note: all citations for OMB Circular A-136 included below are from the June 2019 revision, unless another date is shown.

1, 2 Section IV.2 states, "Unaudited interim financial statements must be submitted 21 business days after the end of the third quarter by agencies (section IV.1); comparative interim and year-end financial statement variance analyses are required for the Balance Sheet, SNC, and SCNP.

3 Section IV.3 states, "Unaudited notes must be submitted 45 business days after the end of the third quarter using OMB MAX."

4 Effective FY 2007, the Statement of Financing was no longer considered to be a basic statement (Section II.4.7 of the June 2007 revision) and was required to be presented instead as a footnote to the financial statements, entitled the Reconciliation of Net Cost of Operations (proprietary) to Budget. Effective in FY 2019, Section II.3.8.40 of the June 2019 revision replaced the Statement of Financing with a Reconciliation of Net Cost to Net Outlays in accordance with Statement of Federal Financial Accounting Standards 53, Budget and Accrual Reconciliation, effective for periods beginning after September 30, 2019.

5 Section II.3.8.1 added a new note disclosure for FY 2019 that is required by Statement of Federal Financial Accounting Standards (SFFAS) 56, *Classified Activities*. Section II.3.8.1 states that all

federal reporting entities must include the following statement in the summary of significant accounting policies: "Accounting standards require all reporting entities to disclose that accounting standards allow certain presentations and disclosures to be modified, if needed, to prevent the disclosure of classified information."

6 Section II.3.8.26, *Inter-Entity Costs*, states, "Pursuant to SFFAS 4, as amended, paragraph 113A, reporting entities should disclose, if necessary, that only certain inter-entity costs are recognized for goods and services that are received from other federal entities at no cost or at a cost less than the full cost. Entities should also disclose the general nature of other imputed costs recognized in their financial statements in addition to the information shown below."

7 Section II.3.8.27, *Net Adjustments to Unobligated Balance Brought Forward, October 1*, states that agencies must "[d]isclose material adjustments during the reporting period to budgetary resources available at the beginning of the year and an explanation for the adjustments in accordance with SFFAS 7, paragraph 79.

8 Section II.3.8.30, *Undelivered Orders at the End of the Period*, states that agencies must "[d]isclose the amount of budgetary resources obligated for undelivered orders at the end of the period, separately disclosing Federal, non-Federal, paid, and unpaid amounts."

9 Section II.3.8.18, *Leases*, requires the disclosure of Future Payments Due "by major asset category for all non-cancelable leases with terms longer than one year." The disclosures are required for Years 1, 2, 3, 4, 5, and the total due after 5 years.

10 Section II.3.8.33, Explanation of Differences between the SBR and the Budget of the U.S. Government, states, "Agencies should explain material differences that exist between: 1. The budgetary resources, new obligations, upward adjustments (total), and net outlay amounts from the prior year (i.e., FY 2018) SBR and the actual amounts from "Detailed Budget Estimates by Agency" found in the Appendix of the Budget (i.e., the FY 2018 amounts in the FY 2020 Budget).

11 SFFAS 12 states, "For loss contingencies for matters of pending or threatened litigation and unasserted claims, a contingent liability would be recognized when a future outflow or other sacrifice of resources is "likely to occur," a past event or exchange transaction has occurred, and the future outflow or sacrifice of resources is measurable……In addition to recognition, disclosure would be required for loss contingencies on matters of pending or threatened litigation and unasserted claims if it is at least reasonably possible that a loss or an additional loss may have been incurred….. The term "recognize" means the formal recording or incorporating of an item into the financial statements of an entity as an asset, liability, revenue, expense, etc."
In addition, Section II.3.2.4, *Liabilities*, states, "A loss contingency is an existing condition, situation, or set of circumstances involving uncertainty as to possible loss to an entity….A contingent liability should be recorded when a past event or exchange transaction has occurred, a future outflow or other sacrifice of resources is probable, and the future outflow or sacrifice of resources is measurable. Contingencies that do not meet any of the conditions for liability recognition, but for which there is at least a reasonable possibility that a loss or an additional loss

may have been incurred, should be disclosed."

12 In accordance with SFFAS 53, *Budget and Accrual Reconciliation*, Section II.3.8.40, *Reconciliation of Net Cost to Net Outlays*, states that agencies must "[d]isclose a reconciliation of net cost to net outlays in accordance with SFFAS 7, paragraphs 80-82 and 95 through 101."

CAUSE

1-12 The Commission relies on its financial management shared service provider, the U.S. Department of Agriculture (USDA) Office of the Chief Financial Officer (OCFO) to prepare and submit the appropriate financial statements and notes for the agency, as required by generally accepted accounting standards and Federal government financial reporting requirements. The Commission does not have internal staffing resources with knowledge and experience with financial reporting who could review the work of the service provider and identify deficiencies in the financial reporting process.

1-12 It appears that the service provider was either not aware of the changes to the reporting requirements or used superseded guidance to prepare the interim and year-end financial statements and footnotes in error.

1-3 USDA stated that it is not its policy to prepare interim notes to the financial statements for their clients. We did not receive a response regarding the cause(s) of the errors and omissions in the year-end financial statements and footnotes.

EFFECT

- The Commission's year-end financial statements and footnotes were not prepared and reported in accordance with generally accepted accounting principles (GAAP) for federal government entities, which resulted in the material misstatement or omission of the following financial statement line items and footnotes:
    - The Classified Activities and Inter-Entity Footnotes are required for federal government entities; the omission of these footnotes is not in compliance with GAAP
    - The Net Adjustments to Unobligated Balance Brought Forward, October 1 footnote is required when the difference between the ending unobligated balance from the prior year is materially different between the beginning unobligated balance, net, for the current year. The omission of a note explaining or reconciling the difference results in an apparent lack of consistency between financial statements that are presented comparatively and is not in accordance with OMB Circular A-136 federal reporting requirements.
    - The failure to include all balances in the Undelivered Orders footnote and to present each balance as federal or nonfederal can result in material misstatement of the footnote and is not compliance with GAAP and OMB Circular A-136 federal reporting requirements, respectively.

- The failure to report future payments in the Lease footnote resulted in a material understatement of the agency's future obligations and is not in accordance with GAAP and OMB Circular A-136 federal reporting requirements.
- The failure to use the correct amounts per the President's Budget in the Explanation of Differences between the SBR and the Budget of the U.S. Government footnote resulted in the failure to identify and explain a material variance in Net Outlays and the failure to properly identify and explain other differences in not in compliance with OMB Circular A-136 federal reporting requirements.
- In addition, the failure to disclose probable and reasonably possible contingent liabilities is not in accordance with GAAP. In addition, the failure to record probable losses due to pending or threatened litigation can result in material misstatements of Contingent Liabilities reported on the Balance Sheet, Future Funded Expenses included in Gross Costs and Net Cost of Operations on the Statement of Net Cost, and the Net Cost of Operations on the Statement of Changes in Net Position.

RECOMMENDATION

We recommend that Commission management:

1. Become familiar with OMB Circular A-136 and other authoritative guidance relating to financial reporting requirements to better oversee the performance of its shared service provider and to ensure that its reporting requirements are being fulfilled.
2. Advise the service provider that outdated/superseded guidance was used in the preparation of its financial statements and footnotes so that this issue can be addressed by the service provider in the future.
3. Request that the service provider begin preparing and submitting third quarter notes to the financial statements, in compliance with the financial reporting requirements which apply to agencies subject to the Accountability of Tax Dollars Act (ATDA) and take adequate steps to ensure that all of the year-end notes are included.
4. Request that the service provider enhance its current review procedures to identify errors and omissions in the required financial statements and footnotes and to ensure that all required presentation and disclosure requirements have been met.
5. In accordance with generally accepted accounting principles (GAAP), ask the Commission's General Counsel to identify loss contingencies relating to legal matters that should be recorded in the agency's general ledger and/or disclosed in the notes to the financial statements and instruct the service provider to record these entries and/or disclose these amounts, as appropriate.

MANAGEMENT RESPONSE

Management's response to the finding is presented in a separate letter immediately following this report.

AUDITORS' RESPONSE

We will perform follow up procedures during FY 2020 to determine if corrective actions have been implemented.

Year-End Accrued Liabilities Not Estimated or Accurately Recorded (2019-02)

CONDITION

The Commission's internal controls over the estimation and recording of accrued liabilities are not sufficiently designed to prevent, detect, or correct errors in its financial statements. During our performance of substantive procedures over the beginning and ending balances of Accounts Payable, Unfunded Federal Employees' Compensation Act (FECA) Liability, and Other Unfunded Employment Related Liabilities and the ending balance of Accrued Funded Payroll and Leave for fiscal year (FY) 2019, we noted the following errors:

Beginning Balances:

1. Accounts Payable:

   We noted that the Commission's beginning Accounts Payable balance was $12,056.84 as of 09/30/18. To determine if an Accounts Payable accrual should have been recorded to recognize operating expenses/program costs incurred for goods and services received during FY 2018, we selected a sample of 12 non payroll disbursement transactions which were recorded between 10/01/18 and 10/21/18 totaling $160,642.22.

   We noted exceptions for 8 of the 12 samples, as follows:

   - For 6 of the 8 exceptions, the goods and/or services were received prior to 09/30/18 and the invoices were received prior to 09/30/18. These invoices, which totaled $101,675.68, should have been recorded to accounts payable prior to the end of the fiscal year or included in the year-end accrual entry for the fiscal year ended 09/30/18.

   - For 2 of the 8 exceptions, the goods and/or services were received during FY 2018; however, the invoices were received after 09/30/18. As the expenses were incurred for these transactions in FY 2018, these amounts, which totaled $36,999.04, should have been accrued and included in the ending accounts payable balance as of 09/30/18.

2. Unfunded FECA and Unfunded Other Employment Related Liabilities

   We obtained the Department of Labor (DOL) Liability for Current Federal Employees' Compensation Act Benefits and Liability for Federal Employees' Unemployment Benefits reports as of September 30, 2018 from the DOL website. The amounts billed and due as of 09/30/18 from the U.S. AbilityOne Commission for FECA and Federal Unemployment Benefits Liabilities were $1,308.46 and $34,812.81, respectively. The ending balance for both liability accounts was $0 in the Commission's general ledger as of 09/30/18.

Ending Balances:

1. Accounts Payable:

   We noted that the Commission's ending Accounts Payable (Disbursements in Transit) balance was

$8,387.28 as of 09/30/19. We selected a sample of 20 non payroll disbursement transactions which were recorded between 10/01/19 and 10/31/19 totaling $212,115.18. We noted exceptions for 17 of the 20 samples, as follows:

- For 3 of the 17 exceptions, the goods and/or services were received prior to 09/30/19 and the invoices were received prior to 09/30/19. These invoices, which totaled $3,484.69 should have been recorded in accounts payable prior to the end of the fiscal year or included in the year-end accrual entry for the fiscal year ended 09/30/19.

- For 14 of the 17 exceptions, the goods and/or services were received during FY 2019; however, the invoice was received after 09/30/19. As the expenses were incurred for these transactions in FY 2019, these amounts, which totaled $200,278.81, should have been accrued and included in the ending accounts payable balance as of 09/30/19.

2. Accrued Funded Payroll and Leave

We noted that the amount recorded in the agency's general ledger for the Accrued Funded Payroll and Leave liability for the period ended 09/30/19 was $225,553.48, which appears to be based on the combined total for both payroll and leave and employee benefits in error. As a separate accrual for the benefits portion of the accrued payroll expenses was separately recorded to Employer Contributions and Payroll Taxes Payable, this resulted in an overstatement of $52,761.08 of Accrued Funded Payroll and Leave and the effective double counting of the amount recorded to Employer Contributions and Payroll Taxes Payable.

3. Unfunded FECA and Unfunded Other Employment Related Liabilities

We obtained the Department of Labor (DOL) Liability for Current Federal Employees' Compensation Act Benefits and Liability for Federal Employees' Unemployment Benefits reports as of September 30, 2019 from the DOL website. The amounts billed and due as 09/30/19 from the U.S. AbilityOne Commission for FECA and Federal Unemployment Benefits Liabilities were $1,308.46 and $0, respectively. The ending balance for both liability accounts was $0 in the Commission's general ledger as of 09/30/19.

CRITERIA

Statement of Federal Financial Accounting Standards (SFFAS) Number (No.) 5, Accounting for Liabilities of the Federal Government, provides the definition and general principles for the recognition of a liability: A liability for federal accounting purposes is a probable future outflow or other sacrifice of resources as a result of past transactions or events. General purpose federal financial reports should recognize probable and measureable future outflows or other sacrifices of resources arising from (1) past exchange transactions, (2) government-related events, (3) government-acknowledged events, or (4) nonexchange transactions that, according to current law and applicable policy, are unpaid amounts due as of the reporting date."

The Government Accountability Office (GAO's) Standards for Internal Control in the Federal Government, states the following:

Principle 10.01: Design Control Activities:

"Management should design control activities to achieve objectives and respond to risks. The following attributes contribute to the design, implementation, and operating effectiveness of this principle:

- Response to Objectives and Risks
- Design of Appropriate Types of Control Activities
- Design of Control Activities at Various Levels
- Segregation of Duties"

CAUSE

- The Commission does not have a control procedure in place to ensure that invoices received on/before September 30 of each fiscal year have been recorded in its financial management system prior to the close of the reporting period.
- The Commission does not have a control procedure in place to estimate accounts payable to be accrued at year-end in accordance with generally accepted accounting principles.
- The Commission does not have written policies and procedures in place for the performance or review of functions pertaining to financial reporting, including necessary year-end adjustments and accruals in accordance with generally accepted accounting principles.
- Existing policies and procedures for the review of accrual calculations and the completeness of the liabilities owed by the Commission are not sufficient to identify errors and omissions.

EFFECT

There is an increased risk of material and pervasive misstatements of the balances reported on the Balance Sheet, Statement of Net Cost, Statement of Changes in Net Position, Statement of Budgetary Resources, and financial statement footnotes for each year in which accrued liabilities are not recorded in the general ledger or are recorded for incorrect amounts, as follows:

Beginning Balances:

1. Accounts Payable:

    - Operating Expenses/Program Costs, Accounts Payable, Delivered Orders-Unpaid, Expended Appropriations, and Unexpended Appropriations-Used were understated by at least $138,674.72 for the fiscal year ended 09/30/18.
    - The balance of Undelivered Orders – Obligated, Unpaid was overstated by at least $138,674.72 as of 09/30/18.

- The FY 2019 beginning balance of Cumulative Results of Operations was understated by $36,121.27 as of 10/01/18.

- The FY 2019 beginning balance of Unexpended Appropriations cumulative was overstated by $138,674.72 as of 10/01/18.

2. Unfunded Accrued Liabilities:

- Employer Contributions to Employee Benefits Not Requiring Current Year Budget Authority, Unfunded FECA Liability, and Other Unfunded Employment Related Liabilities were understated by $36,121.27, $1,308.46, and $34,812.81, respectively, for the fiscal year ended 09/30/18.

- The FY 2019 beginning balance of Cumulative Results of Operations, Unfunded FECA Liability, and Other Unfunded Employment Related Liabilities was understated by $36,121.17.

Ending Balances:

1. Accounts Payable:

- Operating Expenses/Program Costs, Accounts Payable, Delivered Orders-Unpaid, Expended Appropriations, and Unexpended Appropriations-Used were understated by at least $203,763.50 for the fiscal year ended 09/30/19.

- The balance of Undelivered Orders – Obligated, Unpaid was overstated by at least $203,763.50 as of 09/30/19.

- Operating Expenses/Program Cost, Expended Appropriations, and Unexpended Appropriations-Used that should have been recognized in FY 2018 instead of FY 2019 caused the ending balances of these accounts to be overstated by at least $138,674.72 for the fiscal year ended 09/30/19.

2. Unfunded Accrued Liabilities:

- Unfunded FECA Liability was understated by $1,308.46 for the fiscal year ended 09/30/19.

3. Funded Accrued Liabilities:

- Accrued Funded Payroll and Leave, Delivered Orders-Obligations, Unpaid, Expended Appropriations, Unexpended Appropriations-Used, and Operating Expenses/Program Costs were overstated by $52,761.08 for the fiscal year ended 09/30/19.

- Allotments was understated by $52,761.08 for the fiscal year ended 09/30/19.

RECOMMENDATION

We recommend that:

1. Commission management develop a procedure to review disbursements made early in the subsequent reporting period to identify items which should be included in its year-end accounts payable or develop an alternative procedure which appropriately estimates the amount of these liabilities at year-end;
2. Commission management independently verify the amounts recorded for accrued liabilities by its shared service provider or participate in the calculation of the recorded amounts;
3. Commission management develop written policies and procedures for the financial reporting process, including procedures to identify and perform (or assist its service provider in preparing) year-end entries to the general ledger that are required by generally accepted accounting principles;
4. Commission management develop written policies and procedures which define the roles and responsibilities of the service provider and Commission staff in performing financial reporting functions;
5. Commission management direct its shared service provider to enhance its existing policies and procedures to provide a more thorough review of its calculation of payroll accruals and to review published resources in order to ensure that all unfunded liabilities assessed to the Commission have been recorded.

MANAGEMENT RESPONSE

Management's response to the finding is presented in a separate letter immediately following this report.

AUDITORS' RESPONSE

We will perform follow up procedures during FY 2020 to determine if corrective actions have been implemented.

Improvements Needed in the Computation of Imputed Costs (2019-03)

CONDITION

During our review of the U.S. AbilityOne Commission (Commission) fiscal year (FY) 2019 Office of Personnel Management (OPM) Imputed Costs computation, we noted that the agency's service cost relating to the Civil Service Retirement System (CSRS) and Federal Employees' Retirement System (FERS) pension programs was calculated at year end using the FY 2019 OPM cost factors; however, imputed cost that was calculated and recorded at interim using the FY 2018 cost factors was not recalculated and adjusted using the FY 2019 cost factors, resulting in an understatement of imputed costs and financing sources on the FY 2019 financial statements and footnotes as of September 30, 2019. The FY 2019 cost factors should have been applied to all pay periods that were paid during FY 2019.

CRITERIA

The Office of Personnel Management's (OPM) Benefits Administration Letter (BAL) 03-309, issued September 15, 2003, provides detailed instruction for computing and accounting for imputed costs and states that agencies compute total service cost "by multiplying the basic pay paid in [the fiscal year] for each CSRS and FERS category by the applicable cost factor." Basic pay is defined as, "the portion of gross pay from which agencies withhold CSRS and FERS deductions; it generally excludes bonuses, allowances, overtime, and holiday pay."

OPM Benefits Administration Letter 19-304, issued February 2019, "provides the FY 2019 cost factors for the Federal civilian benefit programs. Agencies will use these factors to calculate their imputed costs relating to the Civil Service Retirement System (CSRS), the Federal Employees Retirement System (FERS), the Federal Employees Health Benefits Program (FEHB) and the Federal Employees' Group Life Insurance Program (FEGLI)." The cost factors provided for CSRS, FERS, FERS-RAE, and FERS-FRAE for FY 2019 were 38.4%, 16.9%, 17.3%, and 17.6%, respectively.

CAUSE

The Commission's financial management services provider, the U.S. Department of Agriculture (USDA) Office of the Chief Financial Officer (OCFO) did not use the cost factors which applied to FY 2019 for all of the pay periods paid during the fiscal year and did not record appropriate adjustments to imputed costs that were calculated and recorded at interim to ensure that the balances of imputed costs and imputed financing sources were correct as of September 30, 2019.

EFFECT

The Commission's financial statements and notes were impacted as follows:

- Imputed Financing Sources in the Statement of Net Position was understated by a known amount of $22,502.53.
- Intragovernmental Gross Cost in the Statement of Net Cost, Inter-Entity Costs footnote, and Reconciliation of Net Cost to Outlays footnote were understated by a known amount of $22,502.53.

RECOMMENDATION

We recommend that the Commission and its service provider review the calculations and other supporting documentation relating to all imputed cost and financing source entries that were recorded during the fiscal year to ensure that:

1. the current fiscal year cost factors are used to computed imputed cost and financing sources for all pay periods that were paid during the fiscal year, and
2. any entries recorded during the fiscal year are adjusted for differences between the prior year cost factors that were used to compute imputed cost at interim and the recalculated amounts using the current fiscal year cost factors.

MANAGEMENT RESPONSE

Management's response to the finding is presented in a separate letter immediately following this report.

AUDITORS' RESPONSE

We will perform follow up procedures during FY 2020 to determine if corrective actions have been implemented.

Employee Benefits Election Forms Not Maintained in eOPF per OPM Requirements (2019-04)

CONDITION

The Commission's internal controls over the maintenance of employees' personnel records are not sufficiently designed to prevent, detect, or correct errors in employees' payroll records. During our review of 45 payroll transactions selected from the population of all employees paid during the period of October 1, 2018 through September 30, 2019, we noted the following testwork exceptions:

- Seventeen (17) instances in which we were not able to inspect and verify the employees' Thrift Savings Plan (TSP) elections timely because the Commission was not able to provide the TSP election forms in effect for the pay periods selected within the audit testing period.

- Seven (7) instances where the Commission was not able to provide the employees' Federal Employees Health Benefits (FEHB) Program election forms (SF-2809) in a timely manner.

- One (1) instance in which we were not able to inspect and verify the employee's Federal Employees' Group Life Insurance (FEGLI) Program election timely because the Commission was not able to provide the SF-2817 FEGLI election form in effect for the pay period selected within the audit testing period.

We noted that the Commission subsequently provided additional documentation that resolved the FEHB and FEGLI exceptions and 7 of 17 of the TSP exceptions identified above; however, the Commission was not able to provide adequate supporting documentation for 10 of the 17 TSP samples. In addition, this documentation was received 36 days after our initial request and 15 days after the testing period ended and therefore did not meet the OPM requirements for timeliness and availability.

CRITERIA

The Government Accountability Office's (GAO) *Standards for Internal Control in the Federal Government*, states "Internal control and all transactions and other significant events need to be clearly documented, and the documentation should be readily available for examination… All documentation and records should be properly managed and maintained."

Electronic Code of Federal Regulations, Title 5-Administrative Personnel, Chapter 1- Office of Personnel Management, Subchapter B-Civil Service regulations, part 293-Personell records, subpart A-Basic Policies on Maintaining Personnel records, section 293.103. - Recordkeeping Standards states that:

> "(a) The head of each agency shall ensure that persons having access to or involved in the creation, development, processing, use, or maintenance of personnel records are informed of pertinent recordkeeping regulations and requirements of the Office of Personnel Management and the agency.
>
> (b) The Office is responsible for establishing minimum standards of accuracy, relevancy, necessity, timeliness, and completeness for personnel records it requires agencies to maintain."

U.S. Office of Personnel Management Operating Manual – The Guide to Personnel Recordkeeping, Update 13 June 1, 2011, Chapter 1: General Personnel Recordkeeping Policies, Electronic Records, states, "The purpose of the electronic Official Personnel Folder (e-OPF) and the paper Official Personnel Folder (OPF) is to document the employment history of individuals employed by the Federal Government. The electronic Official Personnel Folder must be complete; that is, when combined with any other documents the agency chooses to retain in paper, or is required by law or regulation to be maintained in paper, it must contain all the information.

OPM requires that each agency ensures that electronic Official Personnel Folder systems

- Be thoroughly documented.
- Be able to produce legible paper copies of all records.
- Have access controls to ensure a high level of security and confidentiality.
- Allow correction and removal of erroneous records under strict authorization controls.
- Include backup and disaster recovery procedures."

<u>CAUSE</u>

- The Commission and its payroll and personnel shared service provider, the General Services Administration (GSA), do not have control procedures in place to ensure that employees' benefit election forms are thoroughly documented in the electronic Official Personnel Folder (e-OPF) in accordance with OPM requirements.

- The Commission and its payroll and personnel shared service provider, the General Services Administration (GSA) do not have control procedures in place to ensure that employees' benefit election forms are updated in the electronic Official Personnel Folder (e-OPF) when employees change their benefit elections.

<u>EFFECT</u>

The failure to properly record and maintain employees' official personnel records increases the risk for misstatement in payroll expense and related liabilities; in addition, incorrect amounts could be withheld from employees pay.

Incorrect health, life, and retirement benefits information in the eOPF can negatively affect employees' in the event of a loss or claim.

<u>RECOMMENDATION</u>

1. We recommend that the Commission consider performing routine reviews of employee benefit elections and Official Personnel Files (OPFs) to ensure they are complete and accurate and address this issue with its shared service provider to ensure that OPM guidance is appropriately followed with respect to the Commission's personnel records.

MANAGEMENT RESPONSE

Management's response to the finding is presented in a separate letter immediately following this report.

AUDITORS' RESPONSE

We will perform follow up procedures during FY 2020 to determine if corrective actions have been implemented.

Management Assurance Statement Was Not Prepared (2019-05)

CONDITION

During our review of the draft Performance and Accountability Report (PAR), we determined that the Commission failed to include a Management Assurance Statement that provided reasonable assurance regarding the effectiveness and efficiency of operations, compliance with regulations and applicable laws, and reliability of financial reporting.

CRITERIA

The Federal Managers' Financial Integrity Act of 1982 (FMFIA), Public Law 97-255, Section (3) states, "By December 31, 1983, and by December 31 of each succeeding year, the head of each executive agency shall, on the basis of an evaluation conducted in accordance with guidelines prescribed under paragraph (2) of this subsection, prepare a statement –

> (A) that the agency's systems of internal accounting and administrative control fully comply with the requirements of paragraph (1); or (B) that such systems do not fully comply with such requirements.

Section 2(d)(1)(A) states, "To ensure compliance with the requirements of subsection (a)(3) of this section, internal accounting and administrative controls of each executive agency shall be established in accordance with standards prescribed by the Comptroller General, and shall provide reasonable assurances that --

> (i) obligations and costs are in compliance with applicable law;
> (ii) funds, property, and other assets are safeguarded against waste, loss, unauthorized use, or misappropriation; and
> (iii) revenues and expenditures applicable to agency operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the assets.

Section 2(d)(1)(B) states that" The standards prescribed by the Comptroller General under this paragraph shall include standards to ensure the prompt resolution of all audit findings."

Section (4) In the event that the head of an agency prepares a statement described in paragraph (3)(B), the head of such agency shall include with such statement a report in which any material weaknesses in the agency's systems of internal accounting and administrative control are identified and the plans and schedule for correcting any such weakness are described.

Section (5) The statements and reports required by this subsection shall be signed by the head of each executive agency and transmitted to the President and the Congress.

OMB Circular A-123, Management's Responsibility for Enterprise Risk Management and Internal Control section VI. Reporting on Internal Controls, states that:

> "The assurance statement and summary information related to Section 2 and Section 4 of the FMFIA must be provided in a single report section of the annual AFR, PAR, or other management report labeled "Analysis of Entity's Systems, Controls and Legal Compliance." The section must include the annual assurance statement, a summary of the Agency's process for assessing internal control effectiveness and resulting material weaknesses and corrective action plans as of September 30 of a given fiscal year…"

OMB Circular A-136, Financial Statement Reporting requirements, section II.2.7. Analysis of Systems, Controls and Legal Compliance states that:

> "Agencies are required to provide "Management Assurances" related to the FMFIA and the Federal Financial Management Improvement Act (FFMIA) in the Analysis of Systems, Controls, and Legal Compliance section of their AFR or PAR. Agencies may submit a single statement signed by the agency head for both FMFIA and FFMIA. Under OMB Circular A-123, management must ensure that the agency process for assessing internal control is integrated with the agency risk profile.
>
> For the FMFIA, management should:

• To ensure compliance with the requirements of subsection (a)(3) of this section, internal accounting and administrative controls of each executive agency shall be established in accordance with standards prescribed by the Comptroller General, and shall provide reasonable assurances that:

(i) Obligations and costs are in compliance with applicable law;
(ii) funds, property, and other assets are safeguarded against waste, loss, unauthorized use, or misappropriation; and
(iii) revenues and expenditures applicable to agency operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the assets.

(B) The standards prescribed by the Comptroller General under this paragraph shall include standards to ensure the prompt resolution of all audit findings.

> • Identify the material weakness (es) (FMFIA § 2) and instance(s) of non-compliance (FMFIA § 4), include a statement of the assurance (unmodified, modified, or no assurance), and a summary of corrective actions to resolve the material weakness(es) and instance(s) of non-compliance…"

CAUSE

The Commission does not have a control procedure in place to ensure that the agency is aware of and is meeting its financial reporting requirements, such as the preparation and submission of an annual Management Assurance Statement.

In addition, the agency does not appear to have an internal risk assessment process that can be used to determine the effectiveness of internal controls, identify material weaknesses, and proactively develop corrective action plans.

EFFECT

The Commission is in noncompliance with the FMFIA and OMB Circulars A-123 and A-136 requirements.

In addition, the failure to establish an internal assessment process can hinder the agency's ability to identify and remediate control deficiencies relating to financial reporting and noncompliance with laws and regulations and the agency may fail to ensure that funds, property, and other assets are safeguarded against waste, loss, unauthorized use, or misappropriation.

RECOMMENDATION

1. We recommend that the Commission management develop and document a process to evaluate its internal controls over financial reporting which provides (1) an assessment of the effectiveness of the organization's internal controls to support reliable financial reporting, effective and efficient programmatic operations, and compliance with applicable laws and regulations, and (2) an assessment of whether financial management systems comply with Federal financial management systems requirements.

MANAGEMENT RESPONSE

Management's response to the finding is presented in a separate letter immediately following this report.

AUDITORS' RESPONSE

We will perform follow up procedures during FY 2020 to determine if corrective actions have been implemented.

Potential ADA Violation Relating to the Obligation of Expired Funds (2019-06)

CONDITION:

The Commission potentially violated the Anti-Deficiency Act (ADA) by entering in new obligations using funds that were no longer available for obligation. During our test work over disbursements and obligations, we noted the following exceptions:

- Eight new obligations which totaled $704,875.19 were recorded in the general ledger to the expired FY 2017 and FY 2018 Treasury Account Symbols (TAS) during fiscal year (FY) 2019.

- Two instances which totaled $451,333.08 ($250,000 and $201,333.08) in which lump sums of payments recorded to current year obligations were transferred (or reclassified) to contracts that were assigned to prior year TAS ($445,510.75 to FY 2018 and $5,822.33 to FY 2017), effectively creating new obligations of the prior year expired funds and improperly liquidating the expired balances.

- Six instances in which the amounts recorded to the Commission's general ledger to obligate prior year funds during FY 2019 did not agree to the source documentation (i.e., purchase orders, contract modifications, and payment transfers).

CRITERIA:

31 United States Code (USC) §1502. Balances Available, section (a) states, "The balance of an appropriation or fund limited for obligation to a definite period is available only for payment of expenses properly incurred during the period of availability or to complete contracts properly made within that period of availability and obligated consistent with section 1501 of this title. However, the appropriation or fund is not available for expenditure for a period beyond the period otherwise authorized by law.

31 USC §1501. Documentary Evidence Requirement for Government Obligations, section (a) states, "An amount shall be recorded as an obligation of the United States Government only when supported by documentary evidence of—(1) a binding agreement between an agency and another person (including an agency) that is—(A) in writing, in a way and form, and for a purpose authorized by law; and (B) executed before the end of the period of availability for obligation of the appropriation or fund used for specific goods to be delivered, real property to be bought or leased, or work or service to be provided.

CAUSE:

- Existing controls were not sufficient to prevent or detect and correct new obligations that were directly recorded to prior year expired Treasury Account Symbols (TAS) during fiscal year (FY) 2019 through the use of purchase orders and funding documents. We noted that the above activity appeared to be confined to three vendors that provide contracted labor services to the Commission over multiple option years; however, services that were provided during the current year and applied to the current option year were effectively paid from the base year and prior years.

- The financial system is not configured on the purchase order level to prevent payments which exceed the amounts that have already been obligated in the general ledger from being recorded. That is, when payments or reclassifications are processed, the obligated amount is automatically increased if the amount of the payment exceeds the total obligations recorded in the general ledger for the purchase order, resulting in the effective increase of the prior year obligated amounts.
- Existing controls are not sufficient to prevent or detect and correct the incorrect reclassification of payments applied to the FY 2019 TAS to prior year TAS.
- Existing controls are not sufficient to prevent or detect entries to the general ledger agree that do not agree with source documentation (i.e., purchase orders, contract modifications, vendor invoices, and payment transfers).

EFFECT:

- The Commission is in potential violation of 31 USC §1501 and §1502.

RECOMMENDATION:

We recommend that Commission management:

1. Ensure that new obligations are recorded only within the current fiscal year, as required by law.
2. Ensure that no payment reclassifications are performed between TAS unless the payment documentation is sufficient to show that the payment was applied to another TAS in error and there are sufficient existing obligated balances in excess of the amount(s) of the payment(s).
3. Ensure that all obligations recorded to the general ledger are properly supported (i.e., the obligated amount recorded agrees to the obligating document).
4. Open and complete a review into the potential ADA violation noted and report to the appropriate parties, as necessary, so that the Commission can determine if an actual violation occurred.

MANAGEMENT RESPONSE

Management's response to the finding is presented in a separate letter immediately following this report.

AUDITORS' RESPONSE

We will perform follow up procedures during FY 2020 to determine if corrective actions have been implemented.

U.S. ABILITYONE COMMISSION

December 12, 2019

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U.S. ABILITYONE COMMISSION FY19 FINANCIAL STATEMENT AUDIT RESPONSE TO FINDINGS

1. NFR-2019-01

Financial Statements and footnotes were not prepared in accordance with Generally Accepted Accounting Principles and OMB Circular A-136

COMMISSIONS REPONSE: CONCUR. The Commission has corrected this statement on the 837 notes to the extent possible however, additional changes to the financial statement are required from the shared service provider United States Department of Agriculture (USDA). The Commission is currently working with USDA to take corrective action to resolve the incorrect balances identified on the financial statement.

2. NFR-2019-02

Year-End Accrued Liabilities not estimated or accurately recorded

COMMISSIONS REPONSE: CONCUR. The Commission has requested that USDA take corrective action to resolve the issue. Also, the Commission will submit accrued estimated to USDA no later than 15 September for services performed in prior fiscal years.

3. NFR-2019-03

Improvements needed in the computation of Imputed Cost

COMMISSIONS REPONSE: CONCUR. The Commission is working with USDA to establish a quarterly budget review to ensure all cost are recorded properly.

4. NFR-2019-04

Employee Benefits Election forms are not maintained by the Commission in E-opf per Office of Personnel Management (OPM) requirements.

COMMISSIONS REPONSE: CONCUR. The Commissions human resource shared service provider, General Services Administration (GSA) does not maintain hard copies of this document however, GSA has granted the Commission access to the system to pull summary Employee Benefit Election information.

5. NFR-2019-05

Management Assurance Statement was not prepared

COMMISSIONS REPONSE: CONCUR .This was an oversight on the part of the Commission however, a Management Assurance Statement has been included in the FY 2019 Performance and Accountability Report.

6. NFR-2019-06

Potential Anti-Deficiency Act (ADA) Violation relating to the obligation of expired funds

COMMISSIONS REPONSE: CONCUR. The Commission has requested that USDA conduct an internal review/investigation into the root cause of the violation.

Please feel free to contact me on (703) 603-2122 or tballard@abilityone.gov if you have any questions.

E. Ballard

E. Ballard
Executive Director