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

2331 Mill Road, Suite 505
Alexandria, Virginia 22314-4608

November 16, 2020

MEMORANDUM

FOR: Jeffrey A. Koses
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 2020, Report No. 21-01

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, 2020, and for the year then ended. The contract requires that the audit be performed in accordance with U.S. generally accepted government auditing standards and Office of Management and Budget bulletin, Audit Requirements for Federal Financial Statements.

Results of the Independent Audit

Allmond & Company found:

- For FY2020, the financial statements are fairly presented, in all material respects, in accordance with U.S. generally accepted accounting principles,
- There were six findings regarding the financial statements including:

1. Financial Statements and Footnotes Were Not Prepared in Accordance with Generally Accepted Accounting Principles and OMB Circular A-136

2. Year-End Accrued Liabilities Not Properly Estimated or Accurately Recorded

3. Employee Benefits Election Forms Were Not Maintained in eOPF per OPM Requirements

4. Lack of Sufficient Controls over Financial Reporting of Balances Relating to Upward and Downward Adjustments of Prior Year Obligations

5. Improvements Needed in the Recording of Activity Relating to Reimbursable Activity and the Collection of Reimbursable Payments

6. Actual and Potential ADA Violations Relating to the Obligation of Expired Funds

- Two material weaknesses and three significant deficiencies in internal controls over financial reporting,
- One reportable noncompliance with applicable provisions of laws, regulations, and contracts tested.
- During the FY2020 audit, the Commission corrected misstatements in their FY2019 financial statements and restated the balance sheet, statement of net cost, statement of net position, and the related footnotes. These corrections enable a restatement of the FY2019 financial statements and led to an unmodified opinion on the restated financial statements.

The independent audit report includes two material weaknesses and three significant deficiencies related to the Commission's internal control over financial reporting, and one finding related to noncompliance. Allmond & Company considered internal control relevant to the preparation and fair presentation of the financial statements in order to design their audit procedures, but not for the purpose of expressing an opinion on the effectiveness of internal control.

Evaluation and Monitoring of Audit Performance

The Inspector General Act of 1978, as amended, requires that the Inspector General take appropriate steps to assure that any work performed by non-Federal auditors complies with the auditing standards established by the Comptroller General. We evaluated the independence, objectivity, and qualifications of the auditors and specialists; reviewed the plan and approach of the audit; monitored the performance of the audit; sought and obtained clarification of the auditor's methodology and findings; and reviewed Allmond & Company's reports and related audit documentation.

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.

The OIG would like to thank the Commission 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, 2020*

U.S. AbilityOne Commission
Fiscal Year 2020 Financial Statement Audit

Independent Auditors' Report

Submitted for review and acceptance to:
Rosario Torres
Contracting Officer Representative (COR)
Committee for Purchase From People
Who Are Blind or Severely Disabled
U.S. AbilityOne Commission
2331 Mill Road, Suite 505
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Submitted by:
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U.S. ABILITYONE COMMISSION
INDEPENDENT AUDITORS' REPORT
SEPTEMBER 30, 2020

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Independent Auditors' Report

Chairperson, Committee 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 (the Commission), which comprise the balance sheets as of September 30, 2020 and 2019, and the related statements of net cost, changes in net position, and budgetary resources for the fiscal years 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 the 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 2020 and 2019 financial statements of the Commission based on our audits. We conducted our audits 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 and Budget (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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Commission as of September 30, 2020 and 2019, and 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.

Emphasis of Matter

As stated in Note 16 to the financial statements, the Commission restated its fiscal year 2019 balance sheet, statement of net cost, and statement of changes in net position and related footnotes to correct financial statement lines items that were incorrect, omitted, and/or not recorded and reported in accordance with generally accepted accounting principles. Because the errors were not corrected by the Commission, we issued an Adverse Opinion on the fiscal year 2019 financial statements. During fiscal year 2020, the Commission corrected these misstatements and restated the balance sheet, statement of net cost, statement of net position, and the related footnotes; therefore, the previously issued auditor's report dated December 3, 2019 is withdrawn and replaced by an unmodified opinion on the restated financial statements. This matter is further discussed in Note 16 of the financial statements.

Other Matters

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 are responsible for applying certain limited procedures, which consist 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 the Commission's financial statements. However, we did not audit this information and, accordingly, we express no opinion or other assurance on the information contained therein.

Other Reporting Required by Government Auditing Standards

Report on Internal Control over Financial Reporting

In planning and performing our audit as of and for the year ended September 30, 2020, 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.

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 Exhibits I and II, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies, respectively.

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 (2020-01, 2020-02).

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 significant deficiencies (2020-03, 2020-04, and 2020-05).

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Commission's fiscal year 2020 financial statements are free of material misstatements, we performed tests of the Commission's compliance with certain provisions of applicable laws, regulations, contracts, and grant agreements, with which noncompliance could have a direct and material effect on the determination of material amounts and disclosures in the 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 one instance 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* (2020-06).

Commission's Response to Findings

The Commission's responses to the findings identified in our audit are described immediately following the auditors' recommendations in Exhibits I, II, and 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 the 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 the Commission's financial statements. Accordingly, this communication is not suitable for any other purpose.

Allmond & Company, LLC

Lanham, MD
November 13, 2020

Financial Statements and Footnotes Were Not Prepared in Accordance with Generally Accepted Accounting Principles and OMB Circular A-136 (2020-01)

CONDITION

The U.S. AbilityOne Commission (Commission) has a service level agreement with the U.S. Department of Agriculture (USDA) Office of the Chief Financial Officer (OCFO) which includes the preparation and submission of the agency's financial statements and notes in accordance with generally accepted accounting principles (GAAP) and Federal government financial reporting requirements; however, ultimately, it is the Commission's responsibility to ensure that the services provided by the shared service provider meet GAAP and other financial reporting requirements.

1. **Interim Financial Statements and Footnotes:**

During our review of the Commission's financial statements and footnotes for the interim reporting period ended June 30, 2020, we noted the following:

- The Balance Sheet, Statement of Net Cost (SNC), and Statement of Changes in Net Position (SCNP) were not prepared timely and were not submitted to the Office of Management and Budget (OMB), as required by OMB Circular A-136, *Financial Reporting Requirements*, as of 10/15/20. The Commission first received the above statements from the USDA OCFO on 09/16/20.
- Statement variance analyses for the Balance Sheet, SNC, and SCNP were not prepared timely and were not submitted to OMB, as required by OMB Circular A-136, *Financial Reporting Requirements,* as of 10/15/20. The Commission first received the variance analyses from the USDA OCFO on 09/16/20.
- Footnotes to the financial statements were not prepared timely and were not submitted, as required by OMB Circular A-136, as of 10/15/20. The footnotes were first received on 10/09/20.
- The financial statement footnotes did not include required notes and several of the notes that were included omitted information, disclosures, or schedules that are required by OMB Circular A-136 and generally accepted accounting principles.
- Several contingent liabilities that were deemed to be probable by the Commission's General Counsel as of June 30, 2020 were not recorded in the agency's general ledger and were not reported on the Balance Sheet and included in the Statement of Net Cost, as required by generally accepted accounting principles and OMB Circular A-136.
- Additional contingent liabilities that were deemed by the Commission's General Counsel as probable and reasonably possible, and therefore requiring disclosure in the agency's footnotes to the financial statements, were not disclosed in the agency's third quarter footnotes.

2. <u>Fiscal Year End Financial Statements and Footnotes</u>

During our year-end review of the Commission's financial statements and footnotes for the reporting period ended September 30, 2020, we noted the following conditions:

- the $124,900 intragovernmental balance of Accounts Receivable was omitted from Note 3 in error;
- an evaluation of the Commission's contingent liabilities relating to legal matters was not performed timely; therefore, the beginning balance for probable loss contingencies was not appropriately adjusted during the fiscal year and the ending balance of Contingent Liabilities was overstated;
- the probable and reasonably possible contingent liabilities relating to legal matters were not properly disclosed in Note 9 in accordance with generally accepted accounting principles or OMB reporting requirements;
- the Undelivered Orders at the End of the Period footnote was not separated into federal and nonfederal components in accordance with federal financial reporting requirements;
- the amounts reported in the Explanation of Differences Between the Statement of Budgetary Resources (SBR) and the Budget of the U.S. Government footnote did not agree with the Commission's restated FY 2019 SBR or the FY 2019 amounts reported in the FY 2021 President's Budget. In addition, the differences between the amounts reported for Budgetary Resources, New Obligations and Upward Adjustments, and Net Outlays per the SBR and the Budget of the U.S. Government were primarily attributed to rounding. However, as the differences related to other factors, including the balance of recoveries and the obligation of expired balances, separate reconciling items should have been included in the table to identify and explain these differences; and
- a note explaining the difference between the agency's unobligated balance, end of year at 09/30/2019 and the unobligated balance from prior year budget authority, net, of the current year was required per federal financial reporting requirements, but was omitted in error.

<u>CRITERIA:</u>

U.S. Government Accountability Office GAO-14-704G, *Standards for Internal Control in the Federal Government* (or "Green Book"), September 2014 revision, Section OV4.01 states, "Management may engage external parties to perform certain operational processes for the entity, such as accounting and payroll processing…….Management, however, retains responsibility for the performance of processes assigned to service organizations."

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."

OMB Circular A-136, Section IV, 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 (section IV.2); and
- Unaudited notes must be submitted 45 business days after the end of the third quarter using OMB MAX (section IV.3)."

OMB Circular A-136, Section II, states that agencies must:

- "Disclose 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 (Section II.3.8.25);
- Disclose the amount of budgetary resources obligated for undelivered orders at the end of the period, separately disclosing Federal, non-Federal, paid, and unpaid amounts (Section II.3.8.28);
- "Explain material differences that exist between: 1. The budgetary resources, new obligations, upward adjustments (total), and net outlay amounts from the prior year SBR and the actual amounts from "Detailed Budget Estimates by Agency" found in the Appendix of the Budget (Section II.3.8.31)."

Statements of Federal Financial Accounting Standards (SFFAS) No. 5, *Accounting for Liabilities of the Federal Government,* defines a contingency as "an existing condition, situation, or set of circumstances involving uncertainty as to possible gain or loss." SFFAS No. 5 requires a liability to be recognized for loss contingencies when a past event or exchange transaction makes a future outflow of resources probable and measurable.

SFFAS No. 12, *Recognition of Contingent Liabilities Arising from Litigation: An Amendment of SFFAS No. 5*, defines "probable "as that which can reasonably be expected or believed to be more likely than not to occur with the exception of pending or threatened litigation and unasserted claims. For pending or threatened litigation and unasserted claims, the future confirming event or events are likely to occur," on the basis of available evidence or logic but which is neither certain nor proven.

<u>CAUSE:</u>

- The Commission did not fulfill its responsibility to ensure that the required interim financial statements, variance analyses, and footnotes were prepared timely and were submitted by its financial management shared services provider to OMB.
- USDA stated that it is not its policy to prepare interim footnotes to the financial statements for its clients; therefore, it appears that the policies and procedures in place by the service provider to ensure

compliance with all OMB Circular A-136 requirements are not sufficient or current or it has made a decision not to perform them.

- USDA also stated that it has a waiver from Treasury that exempts several ATDA shared services clients, including the Commission, from the OMB Circular A-136 requirements at interim. The documentation provided to the Commission and identified by the service provider was comprised of informal email correspondence from FY 2015 between the service provider and the Bureau of Fiscal Service regarding an unrelated topic, the Treasury Financial Manual (TFM) Volume 1, Part 2, Chapter 4700 reporting requirements. This document does not provide a valid exemption that permits nonconformance with the Office of Management and Budget's interim reporting requirements.
- The Commission has developed a corrective action plan as of September 30, 2020 to address the conditions discussed above; however, the corrective action plan had not yet been fully implemented during FY 2020.
- The Commission's financial statements were not provided timely by the financial management shared service provider, decreasing the amount of time for management's review and decreasing management's ability to make corrections within the audit period.
- The identification and evaluation of legal matters which would require the recognition of a contingent liability in the Commission's general ledger and/or disclosure in the agency's footnotes was not performed timely at interim or year-end and was received by the service provider and management officials who are responsible for financial reporting after the financial statements and footnotes were already prepared and/or after the reporting deadline had passed.

EFFECT:

- The Commission did not fulfill its interim financial reporting requirements, as required by OMB Circular A-136 for the third quarter of FY 2020.
- Adjusting entries were required to restate the contingent liabilities balance because the information was not available timely.
- The failure to record probable losses due to pending or threatened litigation or recording them in the incorrect amounts 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.
- The failure to disclose probable and reasonably possible contingent liabilities in the Commission's footnotes is not in accordance with GAAP or OMB reporting requirements.
- 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 OMB Circular A-136 federal reporting requirements.
- The failure to report the correct balances in the Explanation of Differences between the SBR and the Budget of the U.S. Government footnote and properly identify and explain the differences between them is not in accordance with OMB Circular A-136 federal reporting requirements.

RECOMMENDATION:

We recommend that Commission management:

- Advise the service provider of, and request compliance with, the preparation and submission deadlines for the preparation of its financial statements and required variance analyses so that this issue can be addressed by the service provider in the future.
- Request the service provider to begin preparing and submitting third quarter notes to the financial statements by the OMB submission deadline, in compliance with the financial reporting requirements which apply to all agencies subject to the Accountability of Tax Dollars Act (ATDA).
- If a waiver or exemption of the OMB Circular A-136 reporting requirements is deemed to be necessary, then the Commission should submit a request to OMB for consideration and obtain OMB's response in writing which formally waives this requirement.
- If the required statements, variance analyses, and footnotes are not submitted by the service provider on its behalf, then the Commission should consider submitting them to OMB directly.
- Continue to gain knowledge of OMB Circular A-136 and other authoritative guidance relating to financial reporting requirements to better oversee the performance of the Commission's shared service provider and to ensure that the Commission's reporting requirements are being fulfilled, including those relating to the submission of interim financial statements and footnotes and the proper recording and reporting of loss contingencies.
- Continue to implement management's corrective action plan, including the filling of vacant positions.
- Consider preparing its own financial statements and footnotes, both at interim and year-end, if the service provider cannot provide complete and accurate financial statements and footnotes timely.

MANAGEMENT RESPONSE

Management concurs with the condition and will consider the recommendation provided when determining if a corrective action plan should be developed once the audit concludes.

General Comments

The Commission has advised our Financial Management Shared Services (FMSS) provider of, and has requested compliance with, the preparation and submission deadlines for the preparation of its financial statements and required variance analyses so that this issue. The Commission is collaborating with the service provider to incorporate these requirements into our FY 2021 Statement of Work. The Commission will also coordinate financial statement requirements with the Office of Management and Budget to determine the appropriate level of financial statement reporting and provide required documentation. The Commission has implemented staffing objectives by selecting a Chief Financial Officer (CFO) and the CFO will be on staff by mid-November 2020. In addition to CFO hiring action and staff training, the Commission continues to implement its corrective action plan and gain knowledge of OMB Circular A-136 and other authoritative guidance relating to financial reporting requirements to better oversee the performance of the Commission's shared service provider and to ensure that all of the Commission's reporting requirements are being fulfilled.

AUDITORS' RESPONSE

We will perform follow up procedures during FY 2021 to determine if corrective actions have been fully implemented.

Year-End Accrued Liabilities Not Properly Estimated or Accurately Recorded (2020-02)

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 balances of Accounts Payable as of September 30, 2020, we noted the following error:

The Commission's Accounts Payable accrual methodology was invalid because the estimate was calculated using the undelivered orders, unpaid (Account #4801) balance of $1.5 million instead of services incurred but not yet billed of $316 thousand. The accrual of $1,522,433.11 was comprised of three general ledger entries:

- An entry of $601,876.11 to reclassify existing obligated balances recorded to Undelivered Orders-Unpaid to Delivered Orders-Unpaid in order to recognize Accounts Payable, Operating Expense/Program Cost, Expended Appropriations-Used, and Unexpended Appropriations-Used for expenses incurred for goods and services received during FY 2020, and

- Two entries totaling $920,557.00, which were recorded as new obligations and resulted in an abnormal balance of $733,041.01 in the Allotments-Realized Resources account in the Commission's general ledger. The $920,557.00 entry consisted of the following items:

    - $868,024 that was already obligated by the Commission for services that will not be provided until FY 2021. As such, this amount should not have been accrued and the accrual entries resulted in the double-counting of an existing obligation;
    - $19,433 for an existing obligation that was intended to be subtracted from the accrued amount but was instead added to the accrual total and recorded as a new obligation that exceeded the amount of the total award to the vendor;
    - $30,000 for FY 2020 employee performance bonuses which should have been included in Accrued Funded Payroll and Benefit Liabilities instead of Accounts Payable as of 09/30/20;
    - $3,100 in estimated unbilled and unpaid purchase card and web service purchases which were appropriately included in the accrual.

The Commission subsequently revised its accrual estimate to $316,259.11, based on an evaluation of goods and services received but not yet billed from the Commission's vendors during FY 2020. The revised Accounts Payable accrual was determined to be reasonable.

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."

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."

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."

31 U.S. Code §1517. Prohibited obligations and expenditures, states:

"(a) An officer or employee of the United States Government or of the District of Columbia government may not make or authorize an expenditure or obligation exceeding—

> (1) an apportionment; or
> (2) the amount permitted by regulations prescribed under section 1514(a) of this title."

The Government Accountability Office (GAO's) Standards for Internal Control in the Federal Government, Principle 10.01: Design Control Activities, states the following:

"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 did not record an Accounts Payable accrual until FY 2020; therefore, there was a learning curve in determining the proper methodology that should be applied.
- The Commission's service provider determined how the requested Accounts Payable accrual should be recorded in the general ledger, resulting in the duplication of existing obligations and the improper use of the Allotments-Realized Resources account for this transaction. As such, the service provider's internal review procedures were insufficient to prevent or detect and correct misstatements of the financial statements and footnotes.
- The Commission did not have written policies and procedures in place during FY 2020 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.
- The Commission did not have a Chief Financial Officer or other personnel with knowledge and experience of generally accepted accounting principles during FY 2020; therefore existing policies and procedures for the review of accrual calculations and the completeness of the liabilities owed by the Commission were 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:

- Operating Expenses/Program Costs, Delivered Orders-Unpaid, Expended Appropriations, and Unexpended Appropriations-Used were overstated by $1,206.174 for the fiscal year ended 09/30/20;
- Accounts Payable was overstated by $1,236,174;
- Accrued Funded Payroll and Leave was understated by $30,000;
- Undelivered Orders – Obligated, Unpaid was understated by $315,617 as of 09/30/20;
- Allotments-Realized Resources was understated by $890,557 as of 09/30/20;
- Material misstatement of the Balance Sheet, Statement of Net Cost, Statement of Changes in Net Position, Statement of Budgetary Resources and the related footnotes;
- Potential violation of the Antideficiency Act due to the inadvertent duplication of existing obligations already recorded in the Commission's general ledger;
- Errors in the Governmentwide Treasury Account Symbol (GTAS) SF 133: Report on Budget Execution and Budgetary Resources.

RECOMMENDATION

- Commission management should develop written policies and procedures for the financial reporting process, including procedures to identify and review year-end entries to the general ledger to ensure that they have been recorded in accordance with generally accepted accounting principles;
- The incoming Chief Financial Officer or other Commission personnel knowledgeable in accounting and finance should independently verify the amounts recorded for accrued liabilities by its shared service provider and examine the entries that the service provider has recorded in its general ledger;

MANAGEMENT RESPONSE

Management concurs with the condition and will consider the recommendation provided when determining if a corrective action plan should be developed once the audit concludes.

General Comments

The Commission has requested that USDA take corrective action to resolve the issue. Also, the Commission continues to implement its corrective action plan and gain knowledge of OMB Circular A-136 and other authoritative guidance relating to financial reporting requirements to better oversee the performance of the Commission's shared service provider and to ensure that all of the Commission's reporting requirements are being fulfilled.

AUDITORS' RESPONSE

We will perform follow up procedures during FY 2021 to determine if corrective actions have been fully implemented.

Employee Benefits Election Forms Were Not Maintained in eOPF per OPM Requirements (2020-03)

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 interim review of 55 payroll transactions selected from the population of all employees paid during the period of October 1, 2019 through September 30, 2020, we noted the following testwork exceptions:

- Twenty-one (21) instances (12 employees) 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.

- Four (4) instances (3 employees) in which we were not able to inspect and verify the employee's Federal Employees' Group Life Insurance (FEGLI) Program elections timely because the Commission was not able to provide the SF-2817 FEGLI election form in effect for the pay period selected.

- Two (2) instances in which we were not able to inspect and verify the employee's Federal Employee's Health Benefits elections timely because the Commission was not able to provide the SF-2809 Health Benefit election form in effect for the pay period selected.

We requested the Commission to provide alternative documentation that could potentially resolve some of the exceptions identified at interim for substantive and compliance purposes; as of the date of our report, some of this documentation has not been provided.

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."

CAUSE

- 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 and accurately documented in the electronic Official Personnel Folder (e-OPF) in accordance with OPM requirements.
- The Commission and its payroll and personnel shared service provider, 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.
- A corrective action plan that addresses the prior year recommendations for this finding was not fully implemented during FY 2020.

EFFECT

- The Commission's document availability and retention policies and procedures do not comply with OPM requirements. 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.
- Potential non-compliance with 5 USC Chapter 84, Subchapter III – Thrift Savings Plan and title 5 of the Code of Federal Regulations, part 870 – Federal Employees' Group Life Insurance Program

RECOMMENDATION

We recommend that:

- The Commission should 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.
- The Commission should consider obtaining replacement copies of missing records that have been identified and either provide these documents to the service provider so that the information can be maintained in the e-OPF or consider developing and implementing its own repository of documentation to ease the retrieval and response process.
- The Commission should continue to implement the actions identified in its corrective action plan dated September 30, 2020.

MANAGEMENT RESPONSE

Management concurs with the condition and will consider the recommendation provided when determining if a corrective action plan should be developed once the audit concludes.

General Comments

The Commission is continuing to implement the actions identified in its corrective action plan dated September 30, 2020. Working with GSA, our shared service provider, the Commission has identified a root cause preventing the Agency's personnel documents from being automatically placed into the Official Personnel Files (OPFs) and is working with GSA to correct the issue. The Commission will pursue a technical solution immediately in FY 2021, and concurrently, will consider performing reviews of employee benefit elections and OPFs to ensure they are complete and accurate.

In lieu of creating and maintaining a duplicate repository of documents that the shared service provider or e-OPF currently maintains, the Commission will obtain replacement copies of missing records that have been identified and provide these documents to the service provider so that the information can be maintained in the e-OPF. The corrective action aligns to the Commission's lack of resources to implement and maintain its own repository.

AUDITORS' RESPONSE

We will perform follow up procedures during FY 2021 to determine if corrective actions have been fully implemented.

Lack of Sufficient Controls over Financial Reporting of Balances Relating to Upward and Downward Adjustments of Prior Year Obligations (2020-04)

CONDITION:

The U.S. AbilityOne Commission's (the Commission's) internal control over financial reporting lacks sufficient control procedures to ensure the reliability of its Undelivered Orders balances. Specifically, we noted that the entries recorded for Upward Adjustments and Downward Adjustments of Prior Year Unpaid Undelivered Orders were not properly supported by sufficient and appropriate documentation and were the result of invalid posting logic used by the Commission's financial management service provider, the U.S. Department of Agriculture's Office of the Chief Financial Officer (USDA OCFO) to record the Commission's transactions.

We noted the following exceptions during our review of current and prior year obligations:

- Two instances totaling $104,307.25 in which transactions were recorded using USSGL Account 4881 (upward adjustments of prior year obligations) to the incorrect vendor. When the transactions were corrected, the reversing entry used USSGL Account 487100 (downward adjustments of prior year obligations) rather than reversing the USSGL Account 4881 directly.
- One instance totaling $42,665.65 in which payments originally recorded to the FY 2020 were reclassified to the FY 2018 TAS in which the upward adjustment entry was offset by a downward adjustment during the reclassification process.
- Three instances totaling $2,468.38 in which entries were recorded using USSGL Account 4881 and through the flow of the transaction from an undelivered order to a delivered order, the posting logic applied the offsetting entry to USSGL Account 4871, causing additional misstatements for both accounts.

CRITERIA:

The Government Accountability Office (GAO), Standards for Internal Controls in the Federal Government, (issued September 2014), Principle 10 – Design of Appropriate Types of Control Activities, 10.03, Accurate and Timely Recording of Transactions, states,

> "Transactions are promptly recorded to maintain their relevance and value to management in controlling operations and making decisions. This applies to the entire process or life cycle of a transaction or event from its initiation and authorization through its final classification in summary records. In addition, management designs control activities so that all transactions are completely and accurately recorded."

The Government Accountability Office (GAO's) Standards for Internal Control in the Federal Government, Principle 10.01: Design Control Activities, states, "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 Pegasys financial system used by the USDA OCFO, the Commission's financial management service provider, does not appear to have the functionality to directly record a reversal of an upward adjustment to a prior year obligation. The entries were accomplished by the recording of a series of transaction codes that were intended to net to the desired result; instead, the entries created a downward adjustment of the prior year obligation that should not have existed without reducing the upward adjustment balance.
- The Commission does not appear to have policies and procedures in place to review the Undelivered Orders balances (i.e., USSGL accounts 480100, 480200, 487100, and 488100) in Pegasys and to make the necessary corrections to ensure that upward and downward adjustment balances are accurate and reflect the true economic substance of each transaction.

EFFECT:

The lack of financial reporting internal controls can lead to material misstatements to the financial statements and line items not being properly valued or classified in accordance with generally accepted accounting principles.

If uncorrected, the Commission's Statement of Budgetary Resources will be misstated as follows:

- Unobligated Balance from Prior Year Budget Authority, net will be overstated by $149,441.28
- Total Budgetary Resources will be overstated by $149.441.28
- New Obligations and Upward Adjustments will be overstated by $149.441.28
- Total Status of Budgetary Resources will be overstated by $149,441.28

RECOMMENDATION:

We recommend that:

- The incoming Chief Financial Officer or other Commission personnel knowledgeable in accounting and finance should work with the service provider to identify, at least quarterly, upward adjustments that have been offset by downward adjustments in the general ledger so that manual adjustments can be recorded to properly state the ending balances of both accounts.
- Commission management should work with its service provider to design and implement policies and procedures which enhance the internal review process for upward and downward adjustment transactions and includes a reconciliation of the UDO balances with the supporting documentation to ensure that transactions have been recorded correctly.

MANAGEMENT RESPONSE

Management concurs with the condition and will consider the recommendation provided when determining if a corrective action plan should be developed once the audit concludes.

General Comments

The Commission continues to implement its corrective action plan and gain knowledge of OMB Circular A-136 and other authoritative guidance relating to financial reporting requirements to better oversee the performance of the Commission's shared service provider and to ensure that all of the Commission's reporting requirements are being fulfilled.

AUDITORS' RESPONSE

We will perform follow up procedures during FY 2021 to determine if corrective actions have been fully implemented.

Improvements Needed in the Recording of Activity Relating to Reimbursable Activity and the Collection of Reimbursable Payments (2020-05)

CONDITION

The Commission's internal controls over the recording and collection activities relating to reimbursable agreements are not sufficiently designed to prevent, detect, or correct errors in its financial statements. During our evaluation of the general ledger activity for the Commission's single reimbursable agreement with another federal government entity, we noted the following errors:

1. Collection Activity Not Initiated and Completed Timely

   - We noted that between 6/17/20 and 9/30/2020, the Commission paid $104, 083.35 to the vendor that was awarded the related procurement contract; however, no Intra-Governmental Payment and Collection (IPAC) requests were initiated by the Commission during FY 2020 to receive reimbursement for the payments.

2. Improper Coding of Reimbursable Activity in the Financial Management System

   - We noted that the first vendor payment of $20,816.67 on 6/17/20 was not recorded as a reimbursable transaction; as such, the required entries to Accounts Receivable, Revenue for Services Provided, Unfilled Customer Orders Without Advance, and Reimbursements and Other Income Earned – Receivable and the reversal of the entries to Unexpended and Expended Appropriations-Used were not recorded, resulting in under- or overstatements of each of these accounts.

   - In addition, the misclassification of this transaction as a direct, rather than reimbursable, payment caused $20,816.67 misstatements of the balances of Allotments-Realized Resources and Undelivered Orders-Unpaid when the vendor payment was recorded in the general ledger.

3. Failure to Recognize Accrued Accounts Receivable, Revenue, and Related Budgetary Accounts

   - The Commission did not record an accrual for the reimbursable expenses incurred under the related vendor contract, resulting in understatements of Accounts Receivable, Revenue from Goods and Services, and Reimbursements and Other Income Earned-Receivable and the overstatement of Unfilled Customer Orders Without Advance of $20,816.67.

   - In addition, the amount of the accrual for reimbursable activity should have been equal to the amount recorded as an accrued liability for the related vendor contract.

CRITERIA

Statement of Federal Financial Accounting Standards (SFFAS) Number (No.) 1, *Accounting for Selected Assets and Liabilities,* Section 41, Recognition of Receivables, states:

> "A receivable should be recognized when a federal entity establishes a claim to cash or other

> assets against other entities, either based on legal provisions, such as a payment due date, (e.g., taxes not received by the date they are due), or goods or services provided."

Statement of Federal Financial Accounting Standards (SFFAS) Number (No.) 7, *Accounting for Revenue and Other Financing Sources*, Section 34, Recognition and Measurement of Exchange Revenue, states:

> "Revenue from exchange transactions should be recognized when goods or services are provided to the public or another Government entity at a price."

The Government Accountability Office (GAO), Standards for Internal Controls in the Federal Government, (issued September 2014), Principle 10 – *Design Control Activities, 10.03, Accurate and Timely Recording of Transactions*, states:

> "Transactions are promptly recorded to maintain their relevance and value to management in controlling operations and making decisions. This applies to the entire process or life cycle of a transaction or event from its initiation and authorization through its final classification in summary records. In addition, management designs control activities so that all transactions are completely and accurately recorded."

The Government Accountability Office (GAO's) Standards for Internal Control in the Federal Government, Principle 10.01: Design Control Activities, states the following:

> "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"

<u>CAUSE</u>

- The agency's financial management shared services provider, the U.S. Department of Agriculture (USDA) Office of the Chief Financial Officer (OCFO) appeared to be unfamiliar with the recording of reimbursable activity and therefore did not always record the appropriate general ledger entries.
- This reimbursable agreement is the first of its kind for the Commission; therefore, there was a learning curve in determining the proper accounting policies and procedures that should be applied.
- The Commission believed that the total amount of the funds from the reimbursable agreement had been received in advance and therefore periodic billing and collection of the other federal entity would not be required.

- The Commission does not have a control procedure in place to estimate and record accounts receivable and revenue that should be accrued at year-end, in accordance with generally accepted accounting principles.

EFFECT

- The failure to initiate billing and collection activity timely increases the risk that the Commission could inadvertently exceed its spending authority and/or over-obligate current year funds, resulting in non-compliance with the Antideficiency Act.

- 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 if reimbursable activity is not classified correctly or is recorded incorrectly in the Commission's general ledger.

- The Existing misstatements as of 9/30/20, prior to the recording of an accrual, include:

    - Overstatement of Undelivered Orders-Unpaid, Allotments-Realized Resources, Unfilled Customer Orders Without Advance, Unexpended Appropriations-Used, and Expended Appropriations-Used, impacting the line items reported in the Balance Sheet, Statement of Net Cost, Statement of Changes in Net Position, and Statement of Budgetary Resources by +/- $20,816.67.

    - Understatements of Accounts Receivable, Reimbursements and Other Income Earned-Received, and Revenue from Goods and Services, impacting line items reported in the Balance Sheet, Statement of Net Cost, Statement of Changes in Net Position, and Statement of Budgetary Resources by +/- $20,816.67.

- There are additional misstatements to Accounts Receivable, Reimbursements and Other Income Earned-Received, Unfilled Customer Orders Without Advance, and Revenue from Goods and Services for an additional $20,816.67 for the failure to record an accrual for anticipated reimbursements incurred as of 09/30/20, impacting all of the principal financial statements.

RECOMMENDATION

We recommend that:

- To ensure that billing and collection activities are complete and timely, the Commission should initiate (or instruct its service provider to initiate) IPACs to receive reimbursement payments from the Requesting Agency at the same time that the transmittal form approving the vendor payment is submitted to the service provider for processing.

- The incoming Chief Financial Officer or other Commission personnel knowledgeable in accounting and finance should independently verify the amounts recorded for reimbursable activity by its shared service provider or participate in the calculation of the recorded amounts;
- The incoming Chief Financial Officer or other Commission personnel knowledgeable in accounting and finance should develop a procedure to identify accrued liabilities for reimbursable expenses which should be also be recorded as accrued accounts receivable;
- Commission management should 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.
- Commission management should record the proposed adjusting entries in order to correct the errors identified.

MANAGEMENT RESPONSE

Management concurs with the condition and will consider the recommendation provided when determining if a corrective action plan should be developed once the audit concludes.

General Comments

The Commission continues to implement its corrective action plan and gain knowledge of OMB Circular A-136 and other authoritative guidance relating to financial reporting requirements to better oversee the performance of the Commission's shared service provider and to ensure that all of the Commission's reporting requirements are being fulfilled. The Commission will include controls to monitor and verify reimbursable activity.

AUDITORS' RESPONSE

We will perform follow up procedures during FY 2021 to determine if corrective actions have been fully implemented.

Actual and Potential ADA Violations Relating to the Obligation of Expired Funds (2020-06)

CONDITION:

The Commission verified that violations of the Anti-Deficiency Act (ADA) occurred during fiscal year (FY) 2019, as follows:

- Total obligations of $1,158, 704.35 were impermissibly charged to the Commission's FY 2018 and FY 2017 Treasury Account Symbols (TAS) which should have been recorded to the Commission's FY 2019 TAS.
- An over-obligation of $1,083,532.21 of the FY 2019 TAS would have resulted if the erroneous obligations had been charged against the correct TAS.
- To date, the violation has not been formally reported to the President and Congress.

In addition, the Commission potentially violated the Anti-Deficiency Act (ADA) during fiscal year (FY) 2020 by recording new obligations or upward adjustments using funds that were no longer available for obligation. During our interim test work over disbursements, new obligations, upward adjustments of prior year obligations, and manual journal vouchers, we noted the following exceptions, totaling $237,796.50:

- Four new obligations totaling $61,674.25 were created in the agency's FY 2017, FY 2018, and FY 2019 Treasury Account Symbols (TAS) during FY 2020 during the payment process.
- Invalid upward adjustments to prior year obligations totaling $120,407.25 were recorded to the agency's FY 2018 TAS.
- Two manual journal vouchers totaling $43,965.00 were recorded to reclassify transactions from the FY 2020 TAS to the FY 2018 TAS for FY 2018 employee bonuses that were not obligated prior to 09/30/2018 and were to be paid during FY 2020.
- A third manual journal voucher was used to reclassify $11,750 from SGL 4610 – Allotments-Realized Resources to SGL 4650 – Allotments-Expired Authority in the FY 2018 TAS. The balance in SGL 4610 originated through the recording of an invalid new obligation to the FY 2018 TAS. The presence of a balance in SGL 4610 is an indicator of the invalid use of prior year authority.

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.

31 U.S. Code §1517. Prohibited obligations and expenditures, states:

"(a) An officer or employee of the United States Government or of the District of Columbia government may not make or authorize an expenditure or obligation exceeding—

> (1) an apportionment; or
> (2) the amount permitted by regulations prescribed under section 1514(a) of this title.

(b) If an officer or employee of an executive agency or of the District of Columbia government violates subsection (a) of this section, the head of the executive agency or the Mayor of the District of Columbia, as the case may be, shall report immediately to the President and Congress all relevant facts and a statement of actions taken. A copy of each report shall also be transmitted to the Comptroller General on the same date the report is transmitted to the President and Congress."

The Government Accountability Office (GAO), Standards for Internal Controls in the Federal Government, (issued September 2014), Principle 10 – Design of Appropriate Types of Control Activities, 10.03, Accurate and Timely Recording of Transactions, states,

> "Transactions are promptly recorded to maintain their relevance and value to management in controlling operations and making decisions. This applies to the entire process or life cycle of a transaction or event from its initiation and authorization through its final classification in summary records. In addition, management designs control activities so that all transactions are completely and accurately recorded."

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) 2020 through the use of purchase orders, funding documents, transfer of payments during the posting process, and reclassifying journal vouchers.
- Management override of controls and circumvention of system controls and posting models which provided alerts that current year funding should be used.
- 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 entries to the general ledger agree that do not agree with source documentation (i.e., purchase orders, contract modifications, vendor invoices, and payment transfers).
- The Commission's corrective action plan to address the prior year finding was not completed until September 30, 2020.

EFFECT:

- The Commission has not yet fulfilled its reporting obligations under 31 USC §1517(b) for the ADA violations that were verified for FY 2019.
- The Commission is in potential violation of 31 USC §1501 and §1502 for FY 2020.

RECOMMENDATION:

We recommend that Commission management:

- Fulfill the requirements of 31 USC §1517(b) by reporting the FY 2019 violations to the President, Congress, and the Comptroller General of the United States.
- Ensure that new obligations are recorded only within the current fiscal year, as required by law.
- 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).
- Ensure that all obligations recorded to the general ledger are properly supported (i.e., the obligated amount recorded agrees to the obligating document).
- Open and complete a management review into the new potential ADA violations noted and report to the appropriate parties, as necessary, so that the Commission can determine if an actual violation occurred.
- Continue to implement the measures established in the Commission's corrective action plan, dated September 30, 2020.

MANAGEMENT RESPONSE

Management concurs with the condition and will consider the recommendation provided when determining if a corrective action plan should be developed once the audit concludes.

General Comments

The Commission continues to implement its corrective action plan and gain knowledge of OMB Circular A-136 and other authoritative guidance relating to financial reporting requirements to better oversee the performance of the Commission's shared service provider and to ensure that all of the Commission's reporting requirements are being fulfilled. The Commission's work efforts will focus on increased internal controls as initiated in FY19 and take into account current findings for upward adjustments and reclassifications. The Commission will also seek independent review of findings for root cause of potential violations cited.

AUDITORS' RESPONSE

We will perform follow up procedures during FY 2021 to determine if corrective actions have been fully implemented.

The following table provides the fiscal year (FY) 2020 status of all recommendations included in the Independent Auditors' Report on the Commission's FY 2019 Financial Statements (December 3, 2019).

FY 2019 Finding	FY 2019 Recommendation	FY 2020 Status
Financial Statements and Footnotes Were Not Prepared in Accordance with Generally Accepted Accounting Principles and OMB Circular A-136 (2019-01A)	**Recommendations:** Improve the accuracy and completeness of the agency's financial statements and footnotes in accordance with U.S. GAAP and OMB Circular A-136 reporting requirements for the federal government. Specifically, we recommended that 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.	Open
	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.	Open
	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.	Open
	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.	Open
	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.	Open

Year-End Accrued Liabilities Not Estimated or Accurately Recorded (2019-02A)	Improve controls relating to the estimation and recording of accrued liabilities. Specifically, we recommended that management:	
	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;	Partially Closed
	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;	Open
	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;	Open
	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;	Open
	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.	Closed
Improvements Needed in the Computation of Imputed Costs (2019-03A)	Improve the accuracy of the computation of imputed costs. Specifically, we recommended that management: 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	Closed

	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.	Closed
Employee Benefits Election Forms Not Maintained in eOPF per OPM Requirements (2019-04A)	Improve internal controls over the retention and maintenance of employees' personnel records. Specifically, we recommended that management: 1. 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.	Open
Management Assurance Statement Was Not Prepared (2019-05A)	Develop and document a process to evaluate internal controls over financial reporting in order to comply with FMFIA and OMB Circular A-136 reporting requirements for federal government agencies. Specifically, we recommended that management: 1. 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.	Open
Potential ADA Violation Relating to the Obligation of Expired Funds (2019-06A)	Determine whether the Commission violated the Antideficiency Act during FY 2019 and develop appropriate budgetary controls to prevent the obligation and liquidation of prior year expired funding. Specifically, we recommended that 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	Partially Closed Open

	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).	Open
	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.	Partially Closed